

# ***TRINITY HEALTH***

*Consolidated Financial Statements for  
the Years Ended June 30, 2011 and 2010,  
Supplemental Schedules for the Year  
Ended June 30, 2011  
and Independent Auditors' Reports*

# TRINITY HEALTH

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2011 AND 2010:	
Balance Sheets	2-3
Statements of Operations and Changes in Net Assets	4-6
Statements of Cash Flows	7-8
Notes to Consolidated Financial Statements	9-49
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES	50
SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2011:	
Supplemental Condensed Consolidating Balance Sheets	51
Supplemental Condensed Consolidating Balance Sheets – Hospital Entities	52-53
Supplemental Condensed Consolidating Balance Sheets – Non Hospital Entities	54
Supplemental Condensed Consolidating Statement of Operations and Changes in Net Assets	55
Supplemental Condensed Consolidating Statement of Operations and Changes in Net Assets – Hospital Entities	56-57
Supplemental Condensed Consolidating Statement of Operations and Changes in Net Assets – Non Hospital Entities	58

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Trinity Health  
Novi, Michigan

We have audited the accompanying consolidated balance sheets of Trinity Health and subsidiaries (the "Corporation") as of June 30, 2011 and 2010, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Corporation adopted the presentation and disclosure provisions of Accounting Standards Update 2010-07, *Not-for-Profit Entities: Mergers and Acquisitions, including an amendment of FASB Statement No. 142*, and changed its method of accounting for noncontrolling interests in consolidated subsidiaries.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of June 30, 2011 and 2010, and the results of its operations and changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Deloitte & Touche LLP*

September 23, 2011

# TRINITY HEALTH

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2011 AND 2010

(In Thousands)

ASSETS	2011	2010
CURRENT ASSETS:		
Cash and cash equivalents	\$ 536,269	\$ 547,165
Investments	1,681,699	1,511,037
Security lending collateral	149,641	156,162
Assets limited or restricted as to use, current portion	8,233	9,418
Patient accounts receivable, net of allowance for doubtful accounts of \$177.6 million and \$166.7 million in 2011 and 2010, respectively	722,465	693,689
Estimated receivables from third-party payors	92,829	36,415
Other receivables	117,740	88,112
Inventories	109,136	106,861
Assets held for sale	185,437	177,053
Prepaid expenses and other current assets	97,005	106,369
Total current assets	3,700,454	3,432,281
ASSETS LIMITED OR RESTRICTED AS TO USE, NON-CURRENT PORTION:		
Held by trustees under bond indenture agreements	6,627	45,741
Self-insurance, benefit plans and other	207,236	191,381
By Board	2,309,567	1,962,041
By donors	100,203	94,537
Total assets limited or restricted as to use, non-current portion	2,623,633	2,293,700
PROPERTY AND EQUIPMENT, NET	3,374,103	3,349,524
INVESTMENTS IN UNCONSOLIDATED AFFILIATES	104,702	89,827
GOODWILL, net of accumulated amortization of \$26.1 million in 2010	108,297	54,480
INTANGIBLE ASSETS, net of accumulated amortization of \$14.2 million and \$10.9 million in 2011 and 2010, respectively	22,053	16,269
OTHER ASSETS	96,415	85,499
TOTAL ASSETS	\$ 10,029,657	\$ 9,321,580

The accompanying notes are an integral part of the consolidated financial statements.

<b>LIABILITIES AND NET ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>CURRENT LIABILITIES:</b>		
Commercial paper	\$ 99,978	\$ 169,956
Short-term borrowings	1,121,270	1,143,940
Current portion of long-term debt	29,514	30,778
Accounts payable	281,213	275,329
Accrued expenses	132,417	79,241
Salaries, wages and related liabilities	356,968	312,836
Payable under security lending agreements	149,641	156,162
Liabilities held for sale	28,918	36,866
Estimated payables to third-party payors	166,910	155,243
Total current liabilities	2,366,829	2,360,351
<b>LONG-TERM DEBT, NET OF CURRENT PORTION</b>	1,530,902	1,406,548
<b>SELF-INSURANCE RESERVES</b>	282,175	295,266
<b>ACCRUED PENSION AND RETIREE HEALTH COSTS</b>	346,942	657,495
<b>OTHER LONG-TERM LIABILITIES</b>	288,497	291,982
Total liabilities	4,815,345	5,011,642
<b>NET ASSETS:</b>		
Unrestricted net assets	5,007,518	4,119,660
Noncontrolling ownership interest in subsidiaries	97,288	86,223
Total unrestricted net assets	5,104,806	4,205,883
Temporarily restricted net assets	73,287	70,657
Noncontrolling ownership interest in subsidiaries	1,628	1,610
Total temporarily restricted net assets	74,915	72,267
Permanently restricted net assets	34,462	31,736
Noncontrolling ownership interest in subsidiaries	129	52
Total permanently restricted net assets	34,591	31,788
Total net assets	5,214,312	4,309,938
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,029,657</b>	<b>\$ 9,321,580</b>

# TRINITY HEALTH

## CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

YEARS ENDED JUNE 30, 2011 AND 2010

(In Thousands)

	2011	2010
UNRESTRICTED REVENUE:		
Net patient service revenue	\$ 6,495,919	\$ 5,966,053
Capitation and premium revenue	378,568	359,441
Net assets released from restrictions	12,357	20,513
Other revenue	464,505	434,021
Total unrestricted revenue	<u>7,351,349</u>	<u>6,780,028</u>
EXPENSES:		
Salaries and wages	2,850,939	2,612,189
Employee benefits	729,746	657,147
Contract labor	56,471	43,937
Total labor expenses	<u>3,637,156</u>	<u>3,313,273</u>
Supplies	1,190,255	1,127,789
Purchased services	683,560	613,443
Depreciation and amortization	405,631	407,340
Occupancy	307,722	290,580
Provision for bad debts	323,275	306,079
Medical claims and capitation purchased services	198,355	191,531
Interest	84,071	70,651
Other	296,565	256,032
Total expenses	<u>7,126,590</u>	<u>6,576,718</u>
OPERATING INCOME BEFORE OTHER ITEMS	224,759	203,310
Pension settlement	-	(48,986)
OPERATING INCOME	<u>224,759</u>	<u>154,324</u>
NONOPERATING ITEMS:		
Investment income	483,550	328,038
Change in market value and cash payments of interest rate swaps	13,554	(39,928)
Loss from early extinguishment of debt	(10,185)	(949)
Other, including income tax expense	(28,765)	(10,856)
Total nonoperating items	<u>458,154</u>	<u>276,305</u>
EXCESS OF REVENUE OVER EXPENSES	682,913	430,629
Less excess of revenue over expenses attributable to noncontrolling interest	<u>6,580</u>	<u>4,133</u>
EXCESS OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST	<u>\$ 676,333</u>	<u>\$ 426,496</u>

The accompanying notes are an integral part of the consolidated financial statements.

	<b>Controlling Interest</b>	<b>Non- Controlling Interest</b>	<b>Total</b>
UNRESTRICTED NET ASSETS:			
Excess of revenue over expenses	\$ 676,333	\$ 6,580	\$ 682,913
Net assets released from restrictions for capital acquisitions	8,914	-	8,914
Net change in retirement plan related items	209,467	2,594	212,061
Cumulative effect of change in accounting principle	(7,823)	(32)	(7,855)
Other	(2,221)	(3,595)	(5,816)
Increase in unrestricted net assets before discontinued operations	884,670	5,547	890,217
Discontinued operations - Battle Creek Health System			
Income from operations of Battle Creek Health System	4,836	5,518	10,354
Costs associated with the sale of Battle Creek Health System	(1,648)	-	(1,648)
Increase in unrestricted net assets	887,858	11,065	898,923
TEMPORARILY RESTRICTED NET ASSETS:			
Contributions	18,445	123	18,568
Net investment gain	4,549	26	4,575
Net assets released from restrictions	(21,271)	-	(21,271)
Other	907	(131)	776
Increase in temporarily restricted net assets	2,630	18	2,648
PERMANENTLY RESTRICTED NET ASSETS:			
Contributions for endowment funds	403	76	479
Net investment gain	2,534	1	2,535
Other	(211)	-	(211)
Increase in permanently restricted net assets	2,726	77	2,803
INCREASE IN NET ASSETS	893,214	11,160	904,374
NET ASSETS, BEGINNING OF YEAR	4,222,053	87,885	4,309,938
NET ASSETS, END OF YEAR	\$ 5,115,267	\$ 99,045	\$ 5,214,312

(Continued)

[This page is left intentionally blank.]

# TRINITY HEALTH

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2010

(In Thousands)

	Controlling Interest	Non- Controlling Interest	Total
UNRESTRICTED NET ASSETS:			
Excess of revenue over expenses	\$ 426,496	\$ 4,133	\$ 430,629
Net assets released from restrictions for capital acquisitions	20,810	248	21,058
Net change in retirement plan related items	(168,577)	(2,385)	(170,962)
Other	526	(3,392)	(2,866)
Increase (decrease) in unrestricted net assets before discontinued operations	279,255	(1,396)	277,859
Discontinued operations - Battle Creek Health System			
Income from operations of Battle Creek Health System	7,599	7,915	15,514
Increase in unrestricted net assets	286,854	6,519	293,373
TEMPORARILY RESTRICTED NET ASSETS:			
Contributions	21,239	112	21,351
Net investment gain	2,839	34	2,873
Net assets released from restrictions	(41,323)	(248)	(41,571)
Other	1,646	(57)	1,589
Decrease in temporarily restricted net assets	(15,599)	(159)	(15,758)
PERMANENTLY RESTRICTED NET ASSETS:			
Contributions for endowment funds	360	-	360
Net investment gain	1,449	1	1,450
Other	730	(6)	724
Increase (decrease) in permanently restricted net assets	2,539	(5)	2,534
INCREASE IN NET ASSETS	273,794	6,355	280,149
NET ASSETS, BEGINNING OF YEAR	3,948,259	81,530	4,029,789
NET ASSETS, END OF YEAR	\$ 4,222,053	\$ 87,885	\$ 4,309,938

(Concluded)

# TRINITY HEALTH

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2011 AND 2010

(In Thousands)

	2011	2010
OPERATING ACTIVITIES:		
Increase in net assets	\$ 904,374	\$ 280,149
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	420,774	422,810
Provision for bad debts	334,170	314,998
Deferred retirement items arising during the year	(142,612)	261,628
Cumulative effect of a change in accounting principle	7,855	-
Change in net unrealized and realized gains on investments	(429,117)	(258,234)
Change in market values of interest rate swaps	(29,258)	24,194
Undistributed equity earnings from unconsolidated affiliates	(25,664)	(19,593)
(Gain) loss on disposals of property and equipment	(2,307)	7,083
Restricted contributions and investment income received	(4,644)	(7,537)
Loss from extinguishment of debt	2,638	949
Gain on sales of unconsolidated affiliates	(6,617)	(10,130)
Other adjustments	4,777	15,518
Changes in, excluding assets acquired:		
Patient accounts receivable	(346,572)	(305,656)
Other assets	(20,758)	(7,504)
Accounts payable and accrued expenses	30,185	35,334
Estimated receivables from and payables to third-party payors, net	(48,917)	35,407
Self-insurance reserves	(13,091)	(7,390)
Accrued pension and retiree health costs	(171,506)	(320,614)
Other liabilities	10,472	1,806
Total adjustments	(430,192)	183,069
Net cash provided by operating activities	474,182	463,218

The accompanying notes are an integral part of the consolidated financial statements.

	2011	2010
INVESTING ACTIVITIES:		
Purchases of investments	(1,463,138)	(2,171,562)
Proceeds from sales of investments	1,381,129	1,854,238
Purchases of property and equipment	(441,052)	(445,692)
Acquisition of subsidiaries, net of \$7.0 million and \$46.2 million cash assumed in 2011 and 2010, respectively	(81,145)	(67,718)
Dividends received from investments in affiliates and other changes	20,374	24,985
Decrease in assets limited as to use	4,475	10,275
Advanced deposit received for sale of Battle Creek Health System	60,512	-
Proceeds from sale of unconsolidated affiliates	12,258	10,130
Proceeds from disposal of property and equipment	4,046	6,838
Net cash used in investing activities	(502,541)	(778,506)
FINANCING ACTIVITIES:		
Proceeds from issuance of debt	341,298	347,495
Repayments of debt	(254,571)	(91,457)
Net (decrease) increase in commercial paper	(69,978)	69,289
Increase in financing costs and other	(3,930)	(9,880)
Proceeds from restricted contributions and restricted investment income	4,644	7,537
Net cash provided by financing activities	17,463	322,984
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,896)	7,696
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	547,165	539,469
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 536,269</u>	<u>\$ 547,165</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest (net of amounts capitalized)	\$ 99,799	\$ 88,555
New capital lease obligations for buildings and equipment	825	14,540
Accruals for purchases of property and equipment and other long-term assets	27,844	42,492
Unsettled investment trades, purchases	6,044	9,695
Unsettled investment trades, sales	77,019	25,343
Decrease (increase) in security lending collateral	6,521	(67,222)
(Decrease) increase in payable under security lending agreements	(6,521)	67,222

# TRINITY HEALTH

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2011 AND 2010

### 1. ORGANIZATION AND MISSION

Trinity Health, an Indiana not-for-profit corporation, and its subsidiaries are collectively referred to as the Corporation. The Corporation is sponsored by Catholic Health Ministries (“CHM”), a Public Juridic Person of the Holy Roman Catholic Church. The Corporation operates a comprehensive integrated network of health services including inpatient and outpatient services, physician services, managed care coverage, home health care, long-term care, assisted living care and rehabilitation services located in eight states. The mission statement for Trinity Health is as follows:

*We serve together in Trinity Health, in the spirit of the Gospel, to heal body, mind and spirit, to improve the health of our communities and to steward the resources entrusted to us.*

**Community Benefit Ministry** - Consistent with its mission, the Corporation provides medical care to all patients regardless of their ability to pay. In addition, the Corporation provides services intended to benefit the poor and underserved, including those persons who cannot afford health insurance or other payments such as copays and deductibles because of inadequate resources and/or are uninsured or underinsured, and to improve the health status of the communities in which it operates. The following summary has been prepared in accordance with the Catholic Health Association of the United States’ (“CHA”), *A Guide for Planning and Reporting Community Benefit*, 2008 Edition.

The following amounts below reflect the quantifiable costs of the Corporation’s community benefit ministry for the years ended June 30:

	2011	2010
	(In Thousands)	
<b>Ministry for the poor and underserved:</b>		
Charity care at cost	\$ 136,493	\$ 124,481
Unpaid cost of Medicaid and other public programs	152,014	162,184
Programs for the poor and the underserved:		
Community health services	19,613	19,974
Subsidized health services	34,854	32,890
Financial contributions	3,813	7,412
Community building activities	1,811	1,696
Community benefit operations	2,321	1,822
Total programs for the poor and underserved	62,412	63,794
Ministry for the poor and underserved	350,919	350,459
<b>Ministry for the broader community:</b>		
Community health services	8,337	9,108
Health professions education	61,308	53,876
Subsidized health services	13,950	13,790
Research	6,782	6,837
Financial contributions	3,174	3,001
Community building activities	5,161	1,364
Community benefit operations	2,914	2,333
Ministry for the broader community	101,626	90,309
<b>Community benefit ministry</b>	\$ 452,545	\$ 440,768

The Corporation provides a significant amount of uncompensated care to its uninsured and underinsured patients, that is reported as bad debt at cost and not included in the amounts reported above. During the years ended June 30, 2011 and 2010, the Corporation reported bad debt at cost (determined using a cost to charge ratio applied to the provision for bad debts) of \$126.0 million and \$119.9 million, respectively.

***Ministry for the poor and underserved*** represents the financial commitment to seek out and serve those who need help the most, especially the poor, the uninsured and the indigent. This is done with the conviction that healthcare is a basic human right.

***Ministry for the broader community*** represents the cost of services provided for the general benefit of the communities in which the Corporation operates. Many programs are targeted toward populations that may be poor, but also include those areas that may need special health services and support. These programs are not intended to be financially self-supporting.

***Charity care at cost*** represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity patient in accordance with the Corporation's established policies as further described in Note 4. The cost of charity care is calculated using a cost to charge ratio methodology.

***Unpaid cost of Medicaid and other public programs*** represents the cost (determined using a cost to charge ratio) of providing services to beneficiaries of public programs, including state Medicaid and indigent care programs, in excess of governmental and managed care contract payments.

***Community health services*** are activities and services for which no patient bill exists. These services are not expected to be financially self-supporting, although some may be supported by outside grants or funding. Some examples include community health education, free immunization services, free or low cost prescription medications, and rural and urban outreach programs. The Corporation actively collaborates with community groups and agencies to assist those in need in providing such services.

***Health professions education*** includes the unreimbursed cost of training health professionals such as medical residents, nursing students, technicians and students in allied health professions.

***Subsidized health services*** are net costs for billed services that are subsidized by the Corporation. These include services offered despite a financial loss because they are needed in the community and either other providers are unwilling to provide the services or the services would otherwise not be available in sufficient amount. Examples of services include free-standing community clinics, hospice care, mobile units and behavioral health services.

***Research*** includes unreimbursed clinical and community health research and studies on health care delivery.

***Financial contributions*** are made by the Corporation on behalf of the poor and underserved to community agencies. These amounts include special system-wide funds used for charitable activities as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and underserved. Amounts included here also represent certain in-kind donations.

***Community building activities*** include the costs of programs that improve the physical environment, promote economic development, enhance other community support systems, develop leadership skills training, and build community coalitions.

***Community benefit operations*** include costs associated with dedicated staff, community health needs and/or assets assessments, and other costs associated with community benefit strategy and operations.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Principles of Consolidation** – The consolidated financial statements include the accounts of the Corporation, and all wholly owned, majority-owned and controlled organizations. Investments where the Corporation holds less than 20% of the ownership interest are accounted for using the cost method. All other investments, that are not controlled by the Corporation, are accounted for using the equity method of accounting. The Corporation has included its equity share of income or losses from investments in unconsolidated affiliates in other revenue in the consolidated statements of operations and changes in net assets. All material intercompany transactions and account balances have been eliminated in consolidation.

As further described in Notes 3 and 13, the Corporation transferred its shares of Battle Creek Health Systems (“BCHS”) to Bronson Healthcare Group, Inc. effective July 1, 2011. As a result, at June 30, 2011 and 2010, substantially all of the assets and liabilities of BCHS met the criteria for classifying those assets and liabilities as held for sale. The consolidated financial statements have been reclassified to present the operations of BCHS as a discontinued operation. The statements of cash flows include impacts of cash flows related to BCHS. Notes to these consolidated financial statements exclude the impact of BCHS.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management of the Corporation to make assumptions, estimates and judgments that affect the amounts reported in the consolidated financial statements, including the notes thereto, and related disclosures of commitments and contingencies, if any. The Corporation considers critical accounting policies to be those that require more significant judgments and estimates in the preparation of its consolidated financial statements, including the following: recognition of net patient service revenue, which includes contractual allowances; recorded values of investments and goodwill; provisions for bad debts; and reserves for losses and expenses related to health care professional and general liability; and risks and assumptions for measurement of pension and retiree medical liabilities. Management relies on historical experience and other assumptions believed to be reasonable in making its judgment and estimates. Actual results could differ materially from those estimates.

**Cash and Cash Equivalents** – For purposes of the consolidated statements of cash flows, cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

**Investments** – Investments, inclusive of assets limited or restricted as to use, include marketable debt and equity securities. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value and are classified as trading securities. Investments also include investments in commingled funds, investment funds developed specifically for the Corporation and other investments structured as limited liability corporations or partnerships. Commingled funds and investment funds that hold securities directly are stated at the fair value of the underlying securities, as determined by the administrator, based on readily determinable market values. Limited liability corporations and partnerships are accounted for under the equity method. Redemptions of certain limited liability corporations and partnerships may be made with written notice ranging from one month to one year.

**Investment Earnings** – Investment earnings include equity earnings, realized gains and losses on investments, holding gains and losses, and interest and dividends. Investment earnings on assets held by trustees under bond indenture agreements, assets designated by the Board for debt redemption, assets held for borrowings under the intercompany loan program, and assets deposited in trust funds by a captive insurance company for self-insurance purposes in accordance with industry practices are included in other revenue in the consolidated statements of operations and changes in net assets. Investment earnings from all other unrestricted investments and board designated funds are included in nonoperating investment income unless the income or loss is restricted by donor or law.

***Derivative Financial Instruments*** – The Corporation periodically utilizes various financial instruments (e.g., options and swaps) to hedge interest rate, equity downside risk and other exposures. The Corporation's policies prohibit trading in derivative financial instruments on a speculative basis.

***Securities Lending*** – The Corporation participates in securities lending transactions whereby a portion of its investments are loaned, through its agent, to various parties in return for cash and securities from the parties as collateral for the securities loaned. Each business day the Corporation, through its agent, and the borrower determine the market value of the collateral and the borrowed securities. If on any business day the market value of the collateral is less than the required value, additional collateral is obtained as appropriate. The amount of cash collateral received under securities lending is reported as an asset and a corresponding payable in the consolidated balance sheets and is up to 105% of the market value of securities loaned. At June 30, 2011 and 2010, the Corporation had securities loaned of \$153.4 million and \$155.3 million, respectively, and received collateral (cash and noncash) totaling \$157.5 million and \$159.8million, respectively, relating to the securities loaned. The fees received for these transactions are recorded in investment income (loss) - marketable securities on the consolidated statements of operations and changes in net assets.

***Assets Limited as to Use*** – Assets set aside by the Board for future capital improvements, future funding of retirement programs and insurance claims, retirement of debt, held for borrowings under the intercompany loan program, and other purposes over which the Board retains control and may at its discretion subsequently use for other purposes, assets held by trustees under bond indenture and certain other agreements, and self-insurance trust and benefit plan arrangements are included in assets limited as to use.

***Donor-Restricted Gifts*** – Unconditional promises to give cash and other assets to the Corporation's various ministry organizations are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the consolidated statements of operations and changes in net assets.

***Inventories*** – Inventories are stated at the lower of cost or market. The cost of inventories is determined principally by the weighted average cost method.

***Property and Equipment*** – Property and equipment, including internal-use software, are recorded at cost, if purchased, or at fair value at the date of donation, if donated. Depreciation is provided over the estimated useful life of each class of depreciable asset, is computed using either the straight-line or an accelerated method and includes capital lease and internal-use software amortization. The useful lives of these assets range from 3 to 50 years. Interest costs incurred during the period of construction of capital assets are capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

***Goodwill*** – Goodwill represents the future economic benefits arising from assets acquired in a business combination that are not individually identified and separately recognized.

**Intangible Assets** – Intangible assets include both definite and indefinite-lived intangible assets. The majority of the definite-lived intangibles are non-compete agreements with finite lives amortized using the straight-line method over their estimated useful lives, which range from 2 to 8 years. Indefinite lived intangible assets include trade names and renewable licenses.

**Asset Impairment –**

**Property and Equipment** – Impairment testing is performed following a triggering event or whenever events or changes in circumstances indicate an asset’s carrying value may not be recoverable.

**Goodwill** – Goodwill is tested for impairment on an annual basis or when an event or when a change in circumstance indicates the value of a reporting unit may have changed. Testing is conducted at the reporting unit level. There is a two-step process for determining goodwill impairment. Step one compares the carrying value of each reporting unit with its fair value. If this test indicates the fair value is less than the carrying value, then step two is required. Step two compares the implied fair value of the reporting unit’s goodwill with the carrying value of reporting unit’s goodwill. The Corporation estimates the fair value of its reporting units using a discounted cash flow analysis.

**Intangible Assets:**

**Definite – Lived** – Impairment testing is performed if events or changes in circumstances indicate that the asset might be impaired.

**Indefinite – Lived** – Impairment testing is performed on an annual basis or more frequently if events or changes in circumstance indicate the asset may be impaired. The impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount.

The following table provides information on changes in the carrying amount of goodwill, which is included in the accompanying consolidated financial statements of the Corporation as of June 30:

	<b>2011</b> <b>(In Thousands)</b>
Balance as of July 1, 2010	\$ 54,480
July 1, 2010 transitional impairment loss	(7,855)
Balance as of July 1, 2010 after transitional impairment loss	46,625
Goodwill acquired during the year:	
Integrated Health Associates	46,629
Michigan Heart, PC	13,212
Other	1,831
Balance as of June 30, 2011	
Goodwill	116,152
Accumulated impairment losses	(7,855)
Net goodwill as of June 30, 2011	\$ 108,297

The following table provides information regarding other intangible assets, which are included in the accompanying consolidated balance sheets of the Corporation as of June 30, 2011 and 2010:

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net book Value</b>
<b>As of June 30, 2011:</b>			
Definite-lived intangible assets:			
Non-compete agreements	\$ 19,439	\$ 9,970	\$ 9,469
Physician guarantees	6,191	2,898	3,293
Other	2,271	1,051	1,220
Total definite-lived intangible assets	<u>27,901</u>	<u>13,919</u>	<u>13,982</u>
Indefinite-lived intangible assets:			
Tradenames	5,474	0	5,474
Other	2,879	282	2,597
Total indefinite-lived intangible assets	<u>8,353</u>	<u>282</u>	<u>8,071</u>
Total intangible assets	<u><u>36,254</u></u>	<u><u>14,201</u></u>	<u><u>22,053</u></u>
<b>As of June 30, 2010:</b>			
Definite-lived intangible assets:			
Non-compete agreements	17,004	7,185	9,819
Physician guarantees	4,640	2,380	2,260
Other	3,002	1,030	1,972
Total definite-lived intangible assets	<u>24,646</u>	<u>10,595</u>	<u>14,051</u>
Indefinite-lived intangible assets:			
Other	2,500	282	2,218
Total indefinite-lived intangible assets	<u>2,500</u>	<u>282</u>	<u>2,218</u>
Total intangible assets	<u><u>\$ 27,146</u></u>	<u><u>\$ 10,877</u></u>	<u><u>\$ 16,269</u></u>

**Temporarily and Permanently Restricted Net Assets** – Temporarily restricted net assets are those whose use by the Corporation has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Corporation in perpetuity.

**Patient Accounts Receivable, Estimated Receivables from and Payables to Third-Party Payors and Net Patient Service Revenue** – The Corporation has agreements with third-party payors that provide for payments to the Corporation's ministry organizations at amounts different from established rates. Patient accounts receivable and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Estimated retroactive adjustments under reimbursement agreements with third-party payors are included in net patient service revenue and estimated receivables from and payables to third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

**Allowance for Doubtful Accounts** – Substantially all of the Corporation's receivables are related to providing healthcare services to patients. Accounts receivable are reduced by an allowance for amounts that could become uncollectible in the future. The Corporation's estimate for its allowance for doubtful accounts is based upon management's assessment of historical and expected net collections by payor.

**Short-term Borrowings** – Puttable variable rate demand bonds supported by self liquidity or liquidity facilities considered short-term in nature are included in short-term borrowings.

***Premium and Capitation Revenue*** – The Corporation has certain ministry organizations that arrange for the delivery of health care services to enrollees through various contracts with providers and common provider entities. Enrollee contracts are negotiated on a yearly basis. Premiums are due monthly and are recognized as revenue during the period in which the Corporation is obligated to provide services to enrollees. Premiums received prior to the period of coverage are recorded as deferred revenue and included in accrued expenses in the consolidated balance sheet.

Certain of the Corporation's ministry organizations have entered into capitation arrangements whereby they accept the risk for the provision of certain health care services to health plan members. Under these agreements, the Corporation's ministry organizations are financially responsible for services provided to the health plan members by other institutional health care providers. Capitation revenue is recognized during the period for which the ministry organization is obligated to provide services to health plan enrollees under capitation contracts. Capitation receivables are included in other receivables in the consolidated balance sheet.

Reserves for incurred but not reported claims have been established to cover the unpaid costs of health care services covered under the premium and capitation arrangements. The premium and capitation arrangement reserves are classified with accrued expenses in the consolidated balance sheet. The liability is estimated based on actuarial studies, historical reporting, and payment trends. Subsequent actual claim experience will differ from the estimated liability due to variances in estimated and actual utilization of health care services, the amount of charges, and other factors. As settlements are made and estimates are revised, the differences are reflected in current operations. The Corporation limits a portion of its liability through stop-loss reinsurance.

***Income Taxes*** – The Corporation and substantially all of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. The Corporation also has taxable subsidiaries, which are included in the consolidated financial statements. Certain of the taxable subsidiaries have entered into tax sharing agreements and file consolidated federal income tax returns with other corporate taxable subsidiaries. The Corporation includes penalties and interest, if any, with its provision for income taxes.

***Excess of Revenue Over Expenses*** – The consolidated statement of operations and changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include the effective portion of the change in market value of derivatives that meet hedge accounting requirements, permanent transfers of assets to and from affiliates for other than goods and services, contributions of long-lived assets received or gifted (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), net change in postretirement plan related items, discontinued operations, extraordinary items and cumulative effects of changes in accounting principles.

***Adopted Accounting Pronouncements*** –

On July 1, 2010, the Corporation adopted Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") guidance for not-for-profit entities regarding mergers and acquisitions. This guidance defines a combination of one or more other not-for-profit entities, business or nonprofit activities as either a merger or acquisition. It also establishes principles and requirements in determining whether a not-for-profit entity combination is a merger or acquisition, applies the carryover method in accounting for mergers, applies the acquisition method in accounting for acquisitions, including which of the combining entities is the acquirer, and requires enhanced disclosures about the merger or acquisition. In addition, it amends existing FASB ASC guidance on goodwill and other intangible assets and noncontrolling interests in consolidated financial statements to make previous guidance that was only applicable to for-profit entities fully applicable to not-for-profit entities. The adoption of this guidance resulted in the presentation of noncontrolling interest in consolidated net assets in the amount of \$99.0 million and \$87.9 million as of June 30, 2011 and 2010, respectively, in the consolidated balance sheets, and the reclassification of \$81.5 million of noncontrolling interest to net assets as of July 1, 2009. Additionally, the Corporation ceased amortizing

goodwill beginning July 1, 2010 and performed a transitional impairment test on all capitalized goodwill. As a result of the impairment test, a \$7.9 million charge was recorded as the effect of a cumulative change in accounting principle in the consolidated statement of changes in net assets for the year ended June 30, 2011.

The incremental effects of applying the provisions on the individual lines of the consolidated financial statements as of and for the year ended June 30, 2010 are as follows:

	<b>As Previously Reported</b>	<b>Effect of Retrospective Application</b>	<b>Effect of Discontinued Operations</b>	<b>As Adjusted</b>
<b>Consolidated Balance Sheet:</b>				
External financial interest	\$ 87,885	\$ (87,885)	\$ -	\$ -
Net assets:				
Unrestricted	\$ 4,119,660	\$ -	\$ -	\$ 4,119,660
Noncontrolling ownership interest in subsidiaries	-	86,223	-	86,223
Total unrestricted net assets	4,119,660	86,223	-	4,205,883
Temporarily restricted:	70,657	-		70,657
Noncontrolling ownership interest in subsidiaries	-	1,610	-	1,610
Total temporarily restricted net assets	70,657	1,610	-	72,267
Permanently restricted:	31,736	-		31,736
Noncontrolling ownership interest in subsidiaries	-	52	-	52
Total permanently restricted net assets	31,736	52	-	31,788
Total net assets	<u>\$ 4,222,053</u>	<u>\$ 87,885</u>	<u>\$ -</u>	<u>\$ 4,309,938</u>
<b>Consolidated Statement of Operations:</b>				
External financial interest	\$ (12,048)	\$ 12,048	\$ -	\$ -
Excess of revenues over expenses	434,095	12,048	(15,514)	430,629
Excess of revenues over expenses attributable to noncontrolling interest	-	12,048	(7,915)	4,133
Excess of revenues over expenses	434,095	-	(7,599)	426,496
<b>Statement of Changes in Net Assets:</b>				
Excess of revenues over expenses	434,095	12,048	(15,514)	430,629
Increase in unrestricted net assets	286,854	6,519	-	293,373
Decrease in temporarily restricted net assets	(15,599)	(159)	-	(15,758)
Increase (decrease) in permanently restricted net assets	2,539	(5)	-	2,534
Increase in net assets	\$ 273,794	\$ 6,355	\$ -	\$ 280,149
Net assets — beginning of year	3,948,259	81,530	-	4,029,789
Net assets — end of year	<u>\$ 4,222,053</u>	<u>\$ 87,885</u>	<u>\$ -</u>	<u>\$ 4,309,938</u>
<b>Consolidated Statement of Cash Flows:</b>				
Cash flows from operating activities:				
Increase in net assets	\$ 273,794	\$ 6,355	\$ -	\$ 280,149
External financial interest	6,355	(6,355)	-	-
Net cash provided by operating activities	461,857	-	1,361	463,218

On July 1, 2010, the Corporation adopted FASB's ASC guidance on fair value measurements. This standard requires new disclosures and amends existing disclosure requirements. It requires entities to disclose separately the amounts of significant transfers into and out of Level 1 and Level 2 fair value measurements along with the reasons for those transfers. In addition, it also requires entities to present separately information about purchases, sales, issuances, and settlements on a gross basis rather than as one net number in the reconciliation for fair value measurements using significant unobservable inputs (Level 3). The Level 3 fair value measurement disclosure is effective July 1, 2011 for the Corporation. Any additional disclosures required by this ASC guidance are included in Note 10.

#### ***Forthcoming Accounting Pronouncements –***

In August 2010, the FASB issued new ASC guidance, which provides clarification to companies in the healthcare industry on the accounting for professional liability insurance. This guidance states that receivables related to insurance recoveries should not be netted against the related claim liability and such claim liabilities should be determined without considering insurance recoveries. This guidance is effective for the Corporation beginning July 1, 2011. The adoption of this guidance will result in an asset and liability being recorded in the consolidated financial statements of approximately \$11.6 million in self-insurance, benefit plans and other assets and in self-insurance reserves.

In August 2010, the FASB issued new ASC guidance, which requires a company in the healthcare industry to use its direct and indirect costs of providing charity care as the measurement basis for charity care disclosures. This guidance also requires additional disclosures of the methods used to identify such costs. This guidance is effective for the Corporation beginning July 1, 2011. The adoption of this guidance will have no impact on the Corporation's consolidated statement of financial position and results of operations, but will result in additional disclosures to be presented in Note 1.

In December 2010, the FASB issued new ASC guidance that modifies the goodwill impairment test performed at the reporting unit level. This guidance is effective for the Corporation beginning July 1, 2011. In September 2011, the FASB issued ASC guidance which provides entities with the option of first assessing qualitative factors about the likelihood of goodwill impairment to determine whether further impairment assessment is necessary. The Corporation is still assessing the impact of this guidance on the consolidated financial statements.

In May 2011, the FASB issued new ASC guidance that amends the fair value disclosure requirements regarding transfers between Level 1 and Level 2 of the fair value hierarchy and also the categorization by level of the fair value hierarchy for items that are not measured at fair value in the financial statements but for which the fair value is required to be disclosed. This guidance is effective for the Corporation beginning July 1, 2012. The adoption of this guidance will have no impact on the Corporation's consolidated statement of financial position and results of operations, but may result in additional disclosures to be presented in Note 10.

In July 2011, the FASB issued new ASC guidance that requires certain health care entities to present the provision for bad debts related to patient service revenues as a deduction from revenue, net of contractual allowances and discounts, versus as an expense in the statement of operations. In addition, it also requires enhanced disclosures regarding revenue recognition policies and the assessment of bad debt. This guidance is effective for the Corporation beginning July 1, 2012, with early adoption permitted, and will be retrospectively applied. This statement will result in a reduction of net patient service revenue, operating revenue and operating expense but will have no impact on operating income in the statement of operations and changes in net assets.

### 3. CONSOLIDATED AFFILIATES, INVESTMENTS IN UNCONSOLIDATED AFFILIATES, BUSINESS ACQUISITIONS AND DIVESTITURES

**Consolidated Affiliates** – The Corporation consolidates certain affiliates even though ownership may be less than 51% based on control of these entities. The only significant consolidated affiliate with less than 51% ownership interest is Battle Creek Health System (“BCHS”). The Corporation owns 50% of the stock of BCHS. As described in Note 2, the consolidated financial statements as of June 30, 2011 and June 30, 2010 have been reclassified to present the operations of BCHS as a discontinued operation. The Corporation reported income from operations of BCHS, including a 50% provision for noncontrolling interest, in discontinued operations in the statements of operations and changes in net assets. As of June 30, 2011 and June 30, 2010 assets held for sale include \$185.4 million and \$177.1 million and liabilities held for sale of \$28.9 million and \$36.9 million, respectively, for BCHS prior to a 50% provision for noncontrolling interest. The majority of assets and liabilities held for sale consisted of:

(In Thousands)					
	2011	2010		2011	2010
Cash and investments	\$ 53,167	\$ 44,369	Current liabilities	\$ 17,766	\$ 19,350
Patient accounts receivable	18,538	20,739	Accrued pension	10,197	15,394
Other current assets	10,765	5,985	Other liabilities	955	2,122
Property and equipment	97,808	102,432	Total liabilities	<u>\$ 28,918</u>	<u>\$ 36,866</u>
Other assets	5,159	3,528			
Total assets	<u>\$ 185,437</u>	<u>\$ 177,053</u>			

**Investments in Unconsolidated Affiliates** – The Corporation and certain of its ministry organizations have investments in entities that are recorded under the cost and equity methods of accounting. At June 30, 2011, the Corporation maintained investments in unconsolidated affiliates with ownership interests ranging from 3.2% to 50%. The Corporation’s share of equity earnings from entities accounted for under the equity method was \$25.6 million and \$19.6 million for the years ended June 30, 2011 and 2010, respectively, which is included in other revenue in the consolidated statements of operations and changes in net assets.

The unaudited summarized financial position and results of operations for the entities accounted for under the equity method as of and for the periods ended June 30 are as follows:

<b>2011</b>						
<b>(In Thousands)</b>						
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 90,205	\$ 65,938	\$ 73,366	\$ 14,714	\$ 147,207	\$ 391,430
Total debt	53,440	19,721	37,636	-	44,113	154,910
Net assets	30,347	36,286	26,718	6,064	71,001	170,416
Revenue, net	24,226	97,757	107,164	43,943	136,722	409,812
Excess of revenue over expenses	1,699	18,733	40,853	3,141	5,747	70,173

  

<b>2010</b>						
<b>(In Thousands)</b>						
	Medical Office Buildings	Outpatient and Diagnostic Services	Ambulatory Surgery Centers	Physician Hospital Organizations	Other Investees	Total
Total assets	\$ 113,449	\$ 60,143	\$ 63,059	\$ 15,038	\$ 138,683	\$ 390,372
Total debt	66,443	13,534	35,676	-	41,239	156,892
Net assets	40,573	36,522	22,196	6,011	69,680	174,982
Revenue, net	39,362	99,600	94,514	49,611	126,025	409,112
Excess of revenue over expenses	5,106	20,098	30,566	4,199	3,715	63,684

**Business Acquisitions** – The Corporation entered into the following significant acquisition activities during 2011 and 2010:

**Integrated Health Associates (“IHA”)** – Effective December 20, 2010, the Corporation through its operating division Saint Joseph Mercy Health System (“SJMHS”) acquired IHA, a physician practice group with approximately 200 physicians and practitioners for \$60.5 million in cash, and recorded related goodwill of \$46.6 million. IHA has been consolidated in the 2011 financial statements. The Corporation is still assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to complete this assessment during the first quarter of fiscal year 2012 and may adjust the amounts recorded as of December 20, 2010 to reflect revised evaluations. Summarized balance sheet information for IHA at December 20, 2010, is shown below.

<b>(In Thousands)</b>			
Cash and investments	\$ 7,035	Current liabilities	\$ 21,475
Patient accounts receivable	14,404	Other liabilities	2,742
Other current assets	4,416	Total liabilities acquired	<u>\$ 24,217</u>
Property and equipment	5,382		
Other assets	6,907		
Total assets acquired	<u>\$ 38,144</u>		

The operating results of IHA for the period between December 20, 2010 and June 30, 2011, included total unrestricted revenue of \$52.4 million, operating income of \$1.9 million and deficiency of revenue over expense of \$18.9 million. The deficiency of revenue over expenses includes a \$20.8 million charge for income taxes for conversion to non-profit status which is included in other nonoperating items.

**Michigan Heart, PC** – Effective December 31, 2010, the Corporation through its operating division SJMHS acquired the assets and liabilities of Michigan Heart, PC, a physician-owned specialty practice in cardiovascular medicine and research for \$11.7 million in cash; and recorded related goodwill of \$13.2 million. The assets and liabilities were merged into and employees were transferred to two operating divisions of the Corporation and have been consolidated in the 2011 financial statements. SJMHS purchased \$3.6 million of property and equipment and assumed current liabilities of \$4.5 million and other liabilities of \$0.6 million. The operating results of this acquisition were not material to the consolidated financial statements.

**Saint Alphonsus Regional Health System** – Effective April 1, 2010, a new regional health ministry was formed to serve the needs of residents who live in the area ranging from Idaho’s Treasure Valley to Eastern Oregon. The new system is comprised of the following three acquired ministry organizations Mercy Medical Center, Nampa, Idaho; Holy Rosary Medical Center, Ontario, Oregon; and St. Elizabeth Health Services, Inc., Baker City, Oregon and the Corporation’s existing Saint Alphonsus Regional Medical Center, Boise, Idaho. The fair value of assets acquired and liabilities assumed exceeded the \$113.7 million cost of acquisition, resulting in negative goodwill of \$77.3 million. The negative goodwill was allocated to reduce the fair value of property and equipment. The three acquired ministry organizations have been consolidated in the 2010 financial statements. Summarized combined balance sheet information for the three acquired ministry organizations at April 1, 2010 is shown below.

(In Thousands)			
Cash and investments	\$ 49,286	Current liabilities	\$ 17,626
Patient accounts receivable	20,307	Other liabilities	643
Other current assets	7,064	Total liabilities acquired	18,269
Assets limited or restricted			
as to use, non-current	954	Temporarily restricted	1,735
Property and equipment	44,363	Permanently restricted	524
Other assets	12,268	Total net assets acquired	2,259
Total assets acquired	\$ 134,242	Total liabilities and net assets acquired	\$ 20,528

The operating results of the acquired ministry organizations, for the year ended June 30, 2011, and for the three-month period ended June 30, 2010, included total unrestricted revenue of \$191.3 million and \$45.4 million and excess of revenue over expenses of \$13.0 million and \$2.8 million, respectively.

#### 4. NET PATIENT SERVICE REVENUE

A summary of the payment arrangements with major third-party payors follows:

**Medicare** - Acute inpatient and outpatient services rendered to Medicare program beneficiaries are paid primarily at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediaries.

**Medicaid** - Reimbursement for services rendered to Medicaid program beneficiaries includes prospectively determined rates per discharge, per diem payments, discounts from established charges, fee schedules, and cost reimbursement methodologies with certain limitations. Cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of annual cost reports and audits thereof by the Medicaid fiscal intermediaries.

*Other* - Reimbursement for services to certain patients is received from commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for reimbursement includes prospectively determined rates per discharge, per diem payments, and discounts from established charges.

During 2011 and 2010, 38% and 39% of net patient service revenue was received under the Medicare program, 11% and 10% under state Medicaid and indigent care programs, respectively, and 51% from other payor contracts and patients during 2011 and 2010. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Charity Care** – The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify for charity care, they are not reported as net patient service revenue in the consolidated statements of operations and changes in net assets.

A summary of net patient service revenue for the years ended June 30 is as follows:

	2011	2010
	(In Thousands)	
Gross charges:		
Acute inpatient	\$ 7,559,780	\$ 7,262,131
Outpatient, nonacute inpatient, and other	7,534,024	6,905,047
Gross patient service revenue	15,093,804	14,167,178
Less:		
Contractual and other allowances	(8,044,327)	(7,697,321)
Charity care charges	(409,897)	(366,676)
Allowance for self-insured health benefits	(143,661)	(137,128)
Net patient service revenue	\$ 6,495,919	\$ 5,966,053

## 5. PROPERTY AND EQUIPMENT

A summary of property and equipment at June 30 is as follows:

	2011	2010
	(In Thousands)	
Land	\$ 188,787	\$ 185,656
Buildings and improvements	4,026,430	3,829,048
Equipment	2,966,349	2,836,127
Total	7,181,566	6,850,831
Less accumulated depreciation and amortization	(3,989,867)	(3,740,830)
Construction in progress	182,404	239,523
Property and equipment, net	\$ 3,374,103	\$ 3,349,524

Buildings and improvements include assets recorded under capital leases of \$31.7 million as of June 30, 2011 and 2010 with accumulated amortization for such assets of \$9.3 million and \$7.6 million as of June 30, 2011 and 2010, respectively. Equipment includes assets recorded under capital leases of \$10.9 million and \$9.6 million with accumulated amortization for such assets of \$7.5 million and \$6.1 million as of June 30, 2011 and 2010, respectively. The associated charges to income are recorded in depreciation and amortization expense.

At June 30, 2011, commitments to purchase property and equipment of approximately \$41 million were outstanding. Significant commitments are primarily for facility expansion at existing campuses and related infrastructures at the following ministry organizations: Saint Joseph Mercy Health System in Ann Arbor, Michigan - \$14 million; Mercy Medical Center in Dubuque, Iowa - \$9 million; Saint Agnes Medical Center in Fresno, California - \$4 million; and Mount Carmel Health System in Columbus, Ohio - \$5 million. Costs of these projects are expected to be financed by proceeds from bond issuances, available funds, future operations of the hospitals and contributions.

## 6. LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS

A summary of short-term borrowings, long-term debt, capital lease and other obligations at June 30 is as follows:

	2011	2010
	<u>(In Thousands)</u>	
Short-term borrowings:		
Variable rate demand bonds. Interest payable monthly at rates ranging from 0.05% to 0.35% during 2011 and from 0.08% to .60% during 2010.	<u>\$ 1,121,270</u>	<u>\$ 1,143,940</u>
Long-term debt, capital lease and other obligations:		
Tax-exempt revenue bonds and refunding bonds:		
Fixed rate term and serial bonds, payable at various dates through 2038. Interest rate ranges from 2.0% to 6.5% during 2011 and 2010.	\$ 1,508,985	\$ 1,401,995
Notes payable to banks, 2.8% to 7.8%, fixed and variable, payable in varying monthly installments, due through 2021.	14,191	8,725
Capital lease obligations (excluding imputed interest of \$16.4 million and \$18.4 million at June 30, 2011 and 2010, respectively).	31,021	32,106
Other	<u>3,575</u>	<u>3,616</u>
Long-term debt, capital lease and other obligations	1,557,772	1,446,442
Less current portion	(29,514)	(30,778)
Unamortized bond (discounts) premiums	<u>2,644</u>	<u>(9,116)</u>
Long-term debt	<u>\$ 1,530,902</u>	<u>\$ 1,406,548</u>

Contractually obligated principal repayments on short-term borrowings and long-term debt are as follows:

	Short-Term Borrowings	Long-Term Debt
	<u>(In Thousands)</u>	
Years ending June 30:		
2012	\$ 28,075	\$ 29,514
2013	29,325	32,130
2014	36,990	23,829
2015	27,595	35,798
2016	29,060	43,779
Thereafter	<u>970,225</u>	<u>1,392,722</u>
Total	<u>\$ 1,121,270</u>	<u>\$ 1,557,772</u>

A summary of interest costs on borrowed funds held primarily by the trustee under the revenue bond indentures during the years ended June 30 is as follows:

	2011	2010
	<u>(In Thousands)</u>	
Interest costs incurred	\$ 85,809	\$ 80,894
Less capitalized interest	<u>(1,738)</u>	<u>(10,243)</u>
Interest expense included in operations	<u>\$ 84,071</u>	<u>\$ 70,651</u>

***Obligated Group and Other Requirements*** – The Corporation has debt outstanding under a Master Trust Indenture dated July 1, 1998, as amended and supplemented thereto, the Amended and Restated Master Indenture (“ARMI”). The ARMI permits the Corporation to issue obligations to finance certain activities. Obligations issued under the ARMI are general, direct obligations of the Corporation and any future members of the Trinity Health Obligated Group. Proceeds from the tax-exempt bonds and refunding bonds are to be used to finance the construction, acquisition and equipping of capital improvements. Since the implementation of the ARMI, the Corporation is the sole member of the Trinity Health Obligated Group. Certain ministry organizations of the Corporation constitute Designated Affiliates and the Corporation covenants to cause each Designated Affiliate to pay, loan or otherwise transfer to the Corporation such amounts necessary to pay the amounts due on all obligations issued under the ARMI. The Corporation, the Designated Affiliates and all other controlled affiliates are referred to as the Credit Group. The Corporation has granted a security interest in certain pledged property and has caused not less than 85% of the Designated Affiliates representing, when combined with the Corporation and any future members, not less than 85% of the consolidated net revenue of the Credit Group to grant to the Corporation security interests in certain pledged property in order to secure all obligations issued under the ARMI. The aggregate amount of obligations outstanding using the ARMI (other than obligations that have been advance refunded) were \$2,630 million and \$2,546 million at June 30, 2011 and 2010, respectively.

There are several conditions and covenants required by the ARMI with which the Corporation must comply, including covenants that require the Corporation to maintain a minimum debt service coverage and limitations on liens or security interests in property, except for certain permitted encumbrances, affecting the property of the Corporation or any Material Designated Affiliate (a Designated Affiliate whose total revenues for the most recent fiscal year exceed 5% of the total revenues of the Credit Group for the most recent fiscal year). Long-term debt outstanding as of June 30, 2011 and 2010, excluding amounts issued under the ARMI, is generally collateralized by certain property and equipment.

***Issuance and Defeasance of Debt*** – The Corporation advance refunded, through net defeasance, \$38.9 million of debt issued under the ARMI during June 2011. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. These transactions resulted in a loss from extinguishment of debt of \$5.2 million, which has been included in non-operating items in the 2011 consolidated statement of operations and changes in net assets.

In October 2010, the Corporation issued \$330.0 million par value tax-exempt, fixed rate hospital revenue bonds and refunding bonds under the ARMI at a premium of \$11.3 million. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire \$158.8 million of the Corporation’s then outstanding fixed rate hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of \$5.0 million, which has been included in non-operating items in the 2011 consolidated statement of operations and changes in net assets.

In November 2009, the Corporation issued \$347.5 million in tax-exempt, fixed rate hospital revenue bonds and variable rate revenue and refunding bonds (the “Series 2009 Bonds”) under the ARMI. The proceeds were used to finance, refinance and reimburse a portion of the costs of acquisition, construction, renovation and equipping of health facilities, and to pay related costs of issuance. Proceeds, together with assets released from bond trustees, were used to retire \$41 million of the Corporation’s then outstanding fixed rate hospital revenue bonds. These transactions resulted in a loss from extinguishment of debt of \$0.9 million, which has been included in non-operating items in the 2010 consolidated statement of operations and changes in net assets. Of the proceeds received, \$244.7 million were included in long-term debt with \$102.8 million included in short-term borrowings.

The outstanding balance of all bonds advance refunded through net defeasance and excluded from the consolidated balance sheets was \$202.9 million and \$172.9 million at June 30, 2011 and 2010, respectively. The Corporation advance refunded the bonds by depositing funds in trustee-held escrow accounts exclusively for the payment of principal and interest. The trustees/escrow agents are solely responsible for the subsequent extinguishment of the bonds. The trustee-held escrow accounts are invested in U.S. government securities.

**Commercial Paper** – The Corporation has entered into a commercial paper program authorized for borrowings up to \$400 million. Proceeds from this program are to be used to finance certain acquisitions and for general purposes of the Corporation. The notes are payable from the proceeds of subsequently issued notes and from other funds available to the Corporation, including funds derived from the liquidation of securities held by the Corporation in its investment portfolio. The interest rate charged on borrowings outstanding during 2011 ranged from 0.15% to 0.40% and ranged from 0.20% to 0.45% during 2010.

**Liquidity Facilities** – During 2010, the Corporation had credit agreements with groups of lenders that provided \$916 million under revolving credit agreements. In July 2010, the credit agreements were revised and the Corporation entered into new credit agreements (the “2010 Credit Agreements”) with Bank of America, N.A., which acts as an administrative agent for a group of lenders thereunder. The 2010 Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agrees to lend to the Corporation amounts that may fluctuate from time to time but, as of June 30, 2011, the amount was \$916 million. Amounts drawn under the 2010 Credit Agreements can only be used to support the Corporation’s obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the \$916 million, \$256 million expires in July 2011, \$310 million expires in July 2012, \$275 million expires in July 2013 and \$75 million expires in July 2014. The Corporation intends to renew the credit agreements. See the subsequent events Note 13. There were no draws on these credit agreements during 2011 or 2010.

As of January 10, 2011, a standby letter of credit in the amount of \$104.1 million, which provides liquidity support for \$102.9 million of variable rate demand bonds that are classified as short-term borrowings in the consolidated balance sheets was renewed. This dedicated facility expires December 31, 2012. The 2010 Credit Agreements, along with the Corporation’s own self-liquidity, provided support for \$1,121 million of variable rate demand bonds that are classified as short-term borrowings in the consolidated balance sheet. There were no draws on these letters of credit during 2011 or 2010.

As of June 30, 2011 and 2010, certain liquidity facilities had expiration dates of less than one year from the balance sheet dates. Therefore, \$1,121 million and \$1,144 million of the variable rate demand bonds supported by these liquidity facilities and self-liquidity were classified as short-term borrowings at June 30, 2011 and 2010, respectively. Variable rate demand bonds have contractual maturity dates through 2035.

**Standby Letters of Credit** – The Corporation entered into various standby letters of credit totaling approximately \$18.3 million and \$22.3 million at June 30, 2011 and 2010, respectively. These standby letters of credit are renewed annually and are available to the Corporation as necessary under its insurance programs. There were no draws on these letters of credit during 2011 or 2010.

## **7. PROFESSIONAL AND GENERAL LIABILITY PROGRAMS**

The Corporation’s insurance company, Venzke Insurance Company, Ltd. (“Venzke”), a wholly owned subsidiary of Trinity Health, qualifies as a captive insurance company in the domicile where it operates and provides certain insurance coverage to the Corporation’s ministry organizations. The Corporation is self-insured for certain levels of general and professional liability, workers’ compensation, and certain other claims. The Corporation, through Venzke, has limited its liability by purchasing reinsurance and commercial coverage from unrelated third-party insurers.

For 2011 and 2010, the Corporation's self-insurance program covers \$20 million per occurrence for the first layers of professional liability, as well as \$250,000 for each occurrence within a \$1 million insured auto liability program. Additional layers of professional liability insurance are available with coverage provided through other insurance carriers and various reinsurance arrangements. The total amount available for these subsequent layers is \$100 million in aggregate. The Corporation also insures \$500,000 in property damage liability with commercial insurance providing coverage up to \$1 billion.

The liability for self-insurance reserves represents estimates of the ultimate net cost of all losses and loss adjustment expenses which are incurred but unpaid at the consolidated balance sheet date. The reserves are based on the loss and loss adjustment expense factors inherent in the Corporation's premium structure. Independent consulting actuaries determined these factors from estimates of the Corporation's expenses and available industry-wide data. The reserves include estimates of future trends in claim severity and frequency. Although considerable variability is inherent in such estimates, management believes that the liability for unpaid claims and related adjustment expenses is adequate based on the loss experience of the Corporation. The estimates are continually reviewed and adjusted as necessary. The amount of the changes to the estimated self-insurance reserves was determined based upon the annual, independent actuarial analyses.

Claims in excess of certain insurance coverage and the recorded self-insurance liability have been asserted against the Corporation by various claimants. The claims are in various stages of processing, and some may ultimately be brought to trial. There are known incidents occurring through June 30, 2011, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. While it is possible that settlement of asserted claims and claims which may be asserted in the future could result in liabilities in excess of amounts for which the Corporation has provided, management, based upon the advice of Counsel, believes that the excess liability, if any, should not materially affect the consolidated financial position, operations or cash flows of the Corporation.

## **8. PENSION AND OTHER BENEFIT PLANS**

***Self-Insured Employee Health Benefits*** – The Corporation administers self-insured employee health benefit plans for employees. The majority of the Corporation's employees participate in the programs. The provisions of the plans permit employees and their dependents to elect to receive medical care at either the Corporation's ministry organizations or other health care providers. Gross patient service revenue has been reduced by an allowance for self-insured employee health benefits of \$143.7 million and \$137.1 million for 2011 and 2010, respectively, which represented revenue attributable to medical services provided by the Corporation to its employees and dependents in such years.

***Deferred Compensation*** – The Corporation has nonqualified deferred compensation plans at certain ministry organizations that permit eligible employees to defer a portion of their compensation. The deferred amounts are distributable in cash after retirement or termination of employment. At June 30, 2011 and 2010, the assets under these plans totaled \$52.7 million and \$37.9 million, and liabilities totaled \$54.9 million and \$44.3 million, respectively.

***Defined Contribution Benefits*** – The Corporation sponsors defined contribution pension plans covering substantially all of its employees. The plans include discretionary employer matching contributions of up to 3% of compensation. Employer and employee contributions are self-directed by plan participants in defined contribution plans. The Corporation suspended the majority of employer matching contributions during the year ended June 30, 2010. Contribution expense under the plans totaled \$62.2 million and \$3.2 million in 2011 and 2010, respectively.

***Noncontributory Defined Benefit Pension Plans (“Pension Plans”)*** – Substantially all of the Corporation’s employees participate in qualified, noncontributory defined benefit pension plans. Certain non-qualified, supplemental plan arrangements also provide retirement benefits to specified groups of participants. Because the Pension Plans have Church Plan status as defined in the Employee Retirement Income Security Act of 1974 (“ERISA”), funding in accordance with ERISA is not required. The Corporation’s adopted funding policy for qualified plans, which is reviewed annually, is to fund the current normal cost based on the accumulated benefit obligation at the plans’ December 31 year-end, and amortization of any under or over funding over a ten year period. The Corporation funded \$102.3 million and \$187.3 million in excess of the stated funding policy in 2011 and 2010, respectively.

***Plan Amendment*** – In September 2009, the Corporation amended substantially all of its defined benefit pension plans to modify the benefit formula from a final average pay formula to a cash balance formula effective July 1, 2010, and the plans’ liabilities and assets were remeasured as of September 30, 2009. Through June 30, 2010, benefits were based on years of service and employees’ highest five years of compensation. Benefits accrued through June 30, 2010 under the final average pay formula were frozen. Beginning July 1, 2010, participants accrue benefits based on the cash balance formula, which credits participants annually with percentage of eligible compensation based on age and years of service, as well as an interest credit based on a benchmark interest rate. A transition adjustment is provided to participants who were vested as of June 30, 2010, whose age and service met certain requirements at that date. The transition adjustment applies to the pension benefit earned through June 30, 2010 and increases compensation under the final average pay formula over a 5-year period. The effect of modifying the benefit formula and remeasuring the plan’s assets and liabilities resulted in a decrease of \$224.3 million in plan liabilities and a net decrease of \$22.0 million in 2010 net periodic pension cost.

***Plan Terminations*** – The Corporation acquired Hackley Health System (“Hackley”) on April 1, 2008, including its pension plans. Hackley maintained three defined benefit pension plans covering employees of three subsidiaries. Effective October 2008, Hackley approved the freeze of its three defined benefit pension plans as of December 31, 2008. Employees became participants of the Corporation’s defined benefit plan effective January 1, 2009, and the Corporation recorded an increase of \$8.8 million to plan liabilities. During December 2009, the Corporation settled its pension obligations to participants in the Hackley plans through lump sum payments and purchased annuities. The Corporation funded an additional \$79.9 million to the Hackley plans to fully settle the obligations, and recorded a settlement loss of \$49.0 million.

During the year ended June 30, 2010, the Corporation amended one of its non-qualified, supplemental plan arrangements to modify the plan design and provide benefits to participants in the form of a deferred compensation arrangement. The plan change resulted in a curtailment gain of \$1.9 million.

***Postretirement Health Care and Life Insurance Benefits (“Postretirement Plans”)*** – The Corporation sponsors both funded and unfunded, contributory plans to provide health care benefits to certain of its retirees. All of the Postretirement Plans are closed to new participants. The plans cover certain hourly and salaried employees who retire from certain ministry organizations. Medical benefits for these retirees are subject to deductibles and co-payment provisions. In June 2010, the Corporation approved an amendment to restructure the funded plans as Health Reimbursement Account arrangements for Medicare eligible participants effective January 1, 2011. The change resulted in a decrease in the plans’ liabilities of \$30.4 million at June 30, 2010.

The following table sets forth the changes in projected benefit obligations, accumulated postretirement obligations, changes in plan assets and funded status of the plans for both the Pension and Postretirement Plans for the years ended June 30, 2011 and 2010:

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In Thousands)</b>		<b>(In Thousands)</b>	
<b>Change in benefit obligation:</b>				
Benefit obligation, beginning of year	\$ 3,756,053	\$ 3,281,247	\$ 112,807	\$ 129,717
Service cost	116,331	114,364	1,119	1,400
Interest cost	221,527	220,296	6,048	8,759
Amendments	-	(224,340)	(442)	(30,388)
Actuarial losses (gains)	(9,007)	619,248	(2,741)	8,808
Benefits paid	(123,040)	(117,468)	(6,428)	(6,422)
Plan settlement benefits paid	-	(132,573)	-	-
Curtailments / settlements	-	(4,721)	-	-
Medicare Part D reimbursement	-	-	376	933
Benefit obligation, end of year	3,961,864	3,756,053	110,739	112,807
<b>Change in plan assets:</b>				
Fair value of plan assets, beginning of year	3,140,162	2,625,699	71,203	69,185
Actual return on plan assets	372,678	326,345	12,039	6,330
Employer contributions	257,607	439,256	1,440	2,110
Benefits paid	(123,040)	(117,468)	(6,428)	(6,422)
Plan settlement benefits paid	-	(132,573)	-	-
Reversion to plan sponsor	-	(1,097)	-	-
Fair value of plan assets, end of year	3,647,407	3,140,162	78,254	71,203
Unfunded amount recognized June 30	<u>\$ (314,457)</u>	<u>\$ (615,891)</u>	<u>\$ (32,485)</u>	<u>\$ (41,604)</u>

The accumulated benefit obligation and fair value of plan assets for the qualified defined benefit pension plans for the years ended June 30 are as follows:

	<b>Pension Plans</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In Thousands)</b>	
Accumulated benefit obligation	\$ 3,853,728	\$ 3,610,158
Fair value of plan assets	3,647,407	3,140,162
Funded status	<u>\$ (206,321)</u>	<u>\$ (469,996)</u>

The accumulated benefit obligation and plan assets of the non-qualified pension plan are not material to these consolidated financial statements.

Components of net periodic benefit cost for the years ended June 30 consisted of the following:

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In Thousands)</b>		<b>(In Thousands)</b>	
Service cost	\$ 116,331	\$ 114,364	\$ 1,119	\$ 1,400
Interest cost	221,527	220,296	6,048	8,759
Expected return on assets	(252,402)	(222,420)	(5,465)	(5,332)
Amortization of unrecognized transition asset	-	(6,282)	-	-
Amortization of prior service cost	(18,504)	(12,685)	(7,470)	(1,129)
Recognized net actuarial loss	90,655	70,752	3,204	1,782
Net periodic benefit cost (income) before curtailments / settlements	157,607	164,025	(2,564)	5,480
Curtailment gain	-	(1,958)	-	-
Settlement loss	-	48,986	-	-
Net periodic benefit cost (income)	<u>\$ 157,607</u>	<u>\$ 211,053</u>	<u>\$ (2,564)</u>	<u>\$ 5,480</u>

The amounts in unrestricted net assets (inclusive of amounts related to BCHS' pension plan liabilities held for sale), including amounts arising during the year and amounts reclassified into net periodic benefit cost, are as follows:

<b>Pension Plans</b>				
<b>(In Thousands)</b>				
	<b>Net (Gain) Loss</b>	<b>Prior Service Cost</b>	<b>Transition Asset</b>	<b>Total</b>
Balance at July 1, 2009	\$ 1,003,008	\$ 500	\$ (6,282)	\$ 997,226
Curtailments / settlements	(36,969)	-	-	(36,969)
Reclassified into net periodic benefit cost	(72,385)	13,059	6,282	(53,044)
Arising during the year	<u>515,290</u>	<u>(230,981)</u>	<u>-</u>	<u>284,309</u>
Balance at June 30, 2010	1,408,944	(217,422)	-	1,191,522
Reclassified into net periodic benefit cost	(92,788)	19,073	-	(73,715)
Arising during the year	<u>(132,908)</u>	<u>-</u>	<u>-</u>	<u>(132,908)</u>
Balance at June 30, 2011	<u>\$ 1,183,248</u>	<u>\$ (198,349)</u>	<u>\$ -</u>	<u>\$ 984,899</u>

  

<b>Postretirement Plans</b>				<b>All Plans</b>
<b>(In Thousands)</b>				
	<b>Net (Gain) Loss</b>	<b>Prior Service (Credit)</b>	<b>Total</b>	<b>Grand Total</b>
Balance at July 1, 2009	\$ 25,020	\$ (2,563)	\$ 22,457	\$ 1,019,683
Curtailments / settlements	-	-	-	(36,969)
Reclassified into net periodic benefit cost	(1,782)	1,129	(653)	(53,697)
Arising during the year	<u>7,708</u>	<u>(30,389)</u>	<u>(22,681)</u>	<u>261,628</u>
Balance at June 30, 2010	<u>30,946</u>	<u>(31,823)</u>	<u>(877)</u>	<u>1,190,645</u>
Reclassified into net periodic benefit cost	(3,204)	7,470	4,266	(69,449)
Arising during the year	<u>(9,262)</u>	<u>(442)</u>	<u>(9,704)</u>	<u>(142,612)</u>
Balance at June 30, 2011	<u>\$ 18,480</u>	<u>\$ (24,795)</u>	<u>\$ (6,315)</u>	<u>\$ 978,584</u>

The following are estimated amounts to be amortized from unrestricted net assets into net periodic benefit cost during 2012:

	<b>Pension Plans</b>	<b>Postretirement Plans</b>
	<b>(In Thousands)</b>	
Amortization of prior service cost (credit)	\$ (19,438)	\$ (7,319)
Recognized net actuarial loss	70,336	1,283
Total	<u>\$ 50,898</u>	<u>\$ (6,036)</u>

Assumptions used to determine benefit obligations and net periodic benefit cost were as follows:

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Benefit Obligations:</b>				
Discount rate at June 30	6.00%	6.00%	5.10% - 5.75%	4.55% - 5.80%
Discount rate at September 30	N/A	6.35%	N/A	N/A
Rate of compensation increase in 2010				
Graduated to 4% by 2012	4.0%	3.0%	N/A	N/A
<b>Net Periodic Benefit Cost:</b>				
Discount rate at June 30	6.00%	7.25%	4.55% - 5.80%	5.85% - 7.15%
Discount rate at September 30	N/A	6.35%	N/A	N/A
Expected long-term return on plan assets	8.00%	8.00%	8.00%	8.00%
Rate of compensation increase in 2010				
Graduated to 4% by 2012	3.5%	2.0%	N/A	N/A

The Corporation uses an efficient frontier analysis approach in determining its asset allocation and long-term rate of return for plan assets. Efficient frontier analysis models the risk and return trade-offs among asset classes while taking into consideration the correlation among the asset classes. Historical market returns and risks are examined as part of this process, but risk-based adjustments are made to correspond with modern portfolio theory. Long-term historical correlations between asset classes are used, consistent with widely accepted capital markets principles. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term rate of return is established using the efficient frontier analysis approach with proper consideration of asset class diversification and rebalancing. Peer data and historical returns are reviewed to check for reasonableness and appropriateness.

**Health Care Cost Trend Rates** – Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement plans. The postretirement benefit obligation includes assumed health care cost trend rates as follows:

	<b>2011</b>	<b>2010</b>
Medical and drugs, pre-age 65	8.9%	9.4%
Medical and drugs, post-age 65	8.9%	9.4%
Ultimate trend rate	5.0%	5.0%
Year the rate reaches Ultimate Rate	2018	2018

A one-percentage point change in assumed health care cost trend rates would have the following effects as of June 30, 2011:

	<b>1 Percentage Point Increase (In Thousands)</b>	<b>1 Percentage Point Decrease (In Thousands)</b>
Effect on total of service cost and interest cost components	\$ 731	\$ (605)
Effect on postretirement benefit obligation	9,451	(8,041)

The Corporation's investment allocations at June 30, by investment category are as follows:

	<b>Pension Plans</b>		<b>Postretirement Plans</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>Investment Category:</b>				
Cash and cash equivalents	8 %	11 %	1 %	1 %
Marketable securities:				
U.S. and non-U.S equity securities	11	13	56	46
Equity mutual funds	2	2		
Debt securities	33	32	43	53
Other investments:				
Commingled funds	13	9	-	-
Hedge funds	29	29	-	-
Private equity funds	4	3	-	-
Real estate partnership and other	0	1	-	-
Total	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>	<u>100 %</u>

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, and small and large capitalizations. Other investments such as hedge funds, interest rate swaps, and private equity are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies. The combined target investment allocation at June 30, 2011 was U.S. and non-U.S. equity securities 20%; fixed income obligations 35%; hedge funds 20%; long/short equity 10%; private equity 5%; real assets 5%; and opportunistic fixed income 5%.

The following tables summarize the pension and postretirement plans' assets measured at fair value as of June 30, 2010 and 2011. See Note 10 for definitions of Levels 1, 2 and 3 of the fair value hierarchy.

<b>2011</b>				
<b>(In Thousands)</b>				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Pension Plans:				
Cash and cash equivalents	\$ 273,252	\$ 101	\$ -	\$ 273,353
Equity securities				
U.S. common stock	395,957	29	-	395,986
Non U.S. common stock	16,285	63	-	16,348
Debt securities				
Government and government agency obligations	-	289,614	-	289,614
Corporate bonds	-	894,178	-	894,178
Asset backed securities	-	18,585	-	18,585
Mutual funds				
Equity mutual funds	94,044	-	-	94,044
Total marketable securities	779,538	1,202,570	-	1,982,108
Commingled funds	-	477,919	-	477,919
Hedge funds	-	-	1,045,751	1,045,751
Private equity	79	-	134,336	134,415
Real estate partnerships	-	-	3,848	3,848
Other	3,491	(125)	-	3,366
Total pension plans' assets at fair value	<u>\$ 783,108</u>	<u>\$ 1,680,364</u>	<u>\$ 1,183,935</u>	<u>\$ 3,647,407</u>
Postretirement Plans:				
Mutual funds				
Short term investment mutual funds	\$ 755	\$ -	\$ -	\$ 755
Fixed income mutual fund	33,445	-	-	33,445
Commingled funds	-	44,054	-	44,054
Total postretirement plans' assets at fair value	<u>\$ 34,200</u>	<u>\$ 44,054</u>	<u>\$ -</u>	<u>\$ 78,254</u>

2010 (In Thousands)				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Pension Plans:				
Cash and cash equivalents	\$ 330,438	\$ 17,367	\$ -	\$ 347,805
Equity securities				
U.S. common stock	336,433	102	-	336,535
Non U.S. common stock	58,046	-	-	58,046
Debt securities				
Government and government agency obligations	-	175,849	-	175,849
Corporate bonds	-	770,501	6,242	776,743
Asset backed securities	-	47,963	-	47,963
Mutual funds				
Equity mutual funds	68,539	-	-	68,539
Total marketable securities	793,456	1,011,782	6,242	1,811,480
Derivatives	267	10,785	-	11,052
Commingled funds	-	277,787	-	277,787
Hedge funds	-	-	906,684	906,684
Private equity	-	-	104,209	104,209
Real estate partnerships	-	-	5,260	5,260
Other	23,690	-	-	23,690
Total pension plans' assets at fair value	<u>\$ 817,413</u>	<u>\$ 1,300,354</u>	<u>\$ 1,022,395</u>	<u>\$ 3,140,162</u>
Postretirement Plans:				
Mutual funds				
Short term investment mutual funds	\$ 158	\$ -	\$ -	\$ 158
Fixed income mutual fund	36,425	-	-	36,425
Commingled funds	-	33,920	-	33,920
Other	700	-	-	700
Total postretirement plans' assets at fair value	<u>\$ 37,283</u>	<u>\$ 33,920</u>	<u>\$ -</u>	<u>\$ 71,203</u>

Unfunded capital commitments related to Level 3 private equity investments totaled \$198.5 million and \$132.5 million as of June 30, 2011 and 2010, respectively.

There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2011 or 2010.

See Note 10 for the Corporation's methods and assumptions to estimate the fair value of marketable securities and commingled funds.

**Derivatives** – The Pension plans are party to certain agreements, which are designed to manage exposures to equities and interest rate risks. These instruments are used for the purpose of hedging changes in the fair value of assets and actuarial present value of accumulated plan benefits that result from interest rate changes, or as an efficient substitute for traditional securities. The fair value of the derivatives is estimated utilizing the terms of the derivative instruments and publicly available market yield curves. The Pension plans' investment policies specifically prohibit the use of derivatives for speculative purposes.

**Hedge funds** – The plan invests in various hedge fund strategies. These funds utilize a “fund-of-funds” approach resulting in diversified multi-strategy, multi-manager investments. Underlying investments in these funds may include equities, fixed income securities, commodities, currencies, and derivatives. These funds are valued at net asset value, which is calculated using the most recent partnership financial statements.

**Private equity** – These assets include several private equity funds that invest primarily in the United States, Asia and Europe, both directly and on the secondary market pursuing distressed opportunities and natural resources, primarily energy. These funds are valued at net asset value, which is calculated using the most recent fund financial statements.

**Real estate partnerships** – These assets are reported at fair value based on either independent appraisals performed by the general partner during the year, or estimated using discounted cash flow and market analysis, supported by sales comparison information.

**Other** – Represents unsettled transactions, relating primarily to purchases and sales of plan assets, and accrued income. Due to the short maturity of these assets and liabilities, the fair value is equal to the carrying amounts.

The following tables summarize the changes in Level 3 pension plan assets for the years ended June 30:

2010 and 2011 (In Thousands)					
(In thousands)	Corporate debt	Hedge funds	Private equity	Real estate partnerships	Total
Balance at June 30, 2009	\$ -	\$ 749,270	\$ 61,499	\$ 6,815	\$ 817,584
Realized gains	-	12,507	494	-	13,001
Unrealized gains (losses)	448	61,967	7,976	(1,555)	68,836
Purchases	5,794	271,688	36,868	-	314,350
Sales	-	(177,765)	-	-	(177,765)
Settlements	-	(10,983)	(2,628)	-	(13,611)
Balance at June 30, 2010	<u>\$ 6,242</u>	<u>\$ 906,684</u>	<u>\$ 104,209</u>	<u>\$ 5,260</u>	<u>\$ 1,022,395</u>
Transfers out of level 3	(6,060)	-	-	-	(6,060)
Realized gains (losses)	(182)	(4,310)	2,017	821	(1,654)
Unrealized gains (losses)	-	89,223	13,476	(1,412)	101,287
Purchases	-	96,438	26,972	-	123,410
Sales	-	(42,746)	-	-	(42,746)
Settlements	-	462	(12,338)	(821)	(12,697)
Balance at June 30, 2011	<u>\$ -</u>	<u>\$ 1,045,751</u>	<u>\$ 134,336</u>	<u>\$ 3,848</u>	<u>\$ 1,183,935</u>

Of the Level 3 pension plan assets held at June 30, 2011, the unrealized net gain as of June 30, 2011 was \$61.5 million. Of the Level 3 pension plan assets held at June 30, 2010, the unrealized net gain as of June 30, 2010 was \$69.9 million.

Transfers out of Level 3 into Level 2 were made in 2011 due to the availability of more accurate pricing data for a corporate debt security. At June 30, 2010, the fair value of this investment was estimated using unobservable inputs (i.e., extrapolated data, proprietary models, and indicative quotes) obtained from investment managers. At June 30, 2011, the fair value of this security was estimated using observable, market based bid evaluations obtained from Financial Times Interactive Data. The Corporation's policy is to recognize transfers in and transfers out as of the beginning of the reporting period.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes the valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

***Expected Contributions*** – The Corporation expects to contribute an additional \$118.0 million to its pension plans, and \$1.6 million to its postretirement plans in 2012 under the Corporation's stated funding policy. The Corporation may elect to make additional contributions.

***Expected Benefit Payments*** – The Corporation expects to pay the following for pension benefits, that reflect expected future service as appropriate, and expected postretirement benefits, before deducting the Medicare Part D subsidy.

(In Thousands)	Pension Plans	Postretirement Plans	Postretirement Medicare Part D Subsidy
2012	\$ 147,804	\$ 7,600	\$ 130
2013	159,802	8,079	129
2014	179,747	8,376	126
2015	201,402	8,596	122
2016	224,565	8,774	117
Years 2017 - 2021	1,516,223	44,456	474

## 9. COMMITMENTS AND CONTINGENCIES

**Operating Leases** – The Corporation leases various land, equipment and facilities under operating leases. Total rental expense, which includes provisions for maintenance in some cases, was \$89.4 million in 2011 and 2010.

The following is a schedule of future minimum lease payments under operating leases as of June 30, 2011, that have initial or remaining lease terms in excess of one year:

	<u>(In Thousands)</u>
Years ending June 30:	
2012	\$ 67,096
2013	56,428
2014	44,807
2015	34,378
2016	27,501
Thereafter	<u>85,858</u>
Total	<u>\$ 316,068</u>

**Guarantees** – The Corporation entered into debt guarantees prior to December 31, 2002, that are excluded from the consolidated balance sheets. The guaranteed debt was used to finance equipment purchases and to finance or construct professional office buildings, including outpatient surgery centers, rehabilitation facilities, medical facilities and medical office buildings.

Multiple guarantees at the following levels existed at June 30, 2011:

<u>(In Thousands)</u>			
Total Principal Amount	Dollars Guaranteed by Corporation	Percentage Guaranteed by Corporation	Percentage Guaranteed by Others
\$ 6,285	\$ 6,285	100%	0%
10,700	5,350	50%	50%
375	94	25%	75%
<u>2,320</u>	<u>435</u>	18.75%	81.25%
<u>\$ 19,680</u>	<u>\$ 12,164</u>		

**Asset Retirement Obligations** – The Corporation has conditional asset retirement obligations for certain fixed assets mainly related to the removal of asbestos contained within facilities and the removal of underground storage tanks.

A reconciliation of the asset retirement obligations at June 30 follows:

	<u>2011</u>	<u>2010</u>
	<u>(In Thousands)</u>	
Asset retirement obligation, beginning of year	\$ 18,735	\$ 17,575
Accretion	842	913
Liabilities incurred	27	351
Liabilities settled	<u>(2,117)</u>	<u>(104)</u>
Asset retirement obligation, end of year	<u>\$ 17,487</u>	<u>\$ 18,735</u>

## ***Litigation***

On September 21, 2007, in Boise, Idaho a jury awarded \$58.9 million in damages to MRI Associates, LLP, an Idaho limited partnership (“MRIA”) against Saint Alphonsus Regional Medical Center and its subsidiary Saint Alphonsus Diversified Care, Inc. (collectively, “Saint Alphonsus”). The lawsuit involved Saint Alphonsus’ withdrawal from the MRIA partnership. The jury award was remitted by the trial judge to \$36.3 million, which was offset by the award of \$4.6 million to Saint Alphonsus, which was the value of its partnership interest in MRIA. St. Alphonsus appealed to the Idaho Supreme Court, asserting, among other things, that the trial court decision that the withdrawal was “wrongful” as a matter of law was incorrect. In October 2009, the Idaho Supreme Court overturned the trial court decision concluding that the withdrawal was not wrongful as a matter of law and remanded the case for a new trial. The trial date is tentatively set for September 2011. The Corporation recorded management’s estimation for litigation expense of \$20 million in the 2007 consolidated statement of operations and changes in net assets. As of June 30, 2011 and 2010, the liability is included in other long-term liabilities in the consolidated balance sheets in the event of an unfavorable resolution of this matter.

In June 2007, the Corporation was added to litigation pending in the United States District Court for the Eastern District of Michigan, alleging that certain hospitals in Southeastern Michigan conspired to suppress the wages of nurses over a period of five years. The plaintiffs brought the action on their own behalf and on behalf of all others similarly situated and seeking certification of the class. The complaint alleges that there was a direct agreement among the executives of defendant hospitals to suppress compensation and that they shared non-public compensation information which had an anticompetitive effect on wages. The complaint specifically references St. Mary Mercy Hospital in Livonia, Michigan and St. Joseph Mercy Oakland in Pontiac, Michigan. This case is one of five similar actions filed by the same group of plaintiffs’ counsel, in different cities, raising similar claims and allegations of collusion. Three of the seven defendants have settled the litigation, but the Corporation has not. Discovery is complete and several dispositive motions have been pending since June 2009, including defendants’ motion for summary judgment. Plaintiffs’ motion to certify a class is also pending and has been opposed by defendants. If the outcome is adverse to the Corporation, the Corporation could potentially incur material damages or other financial consequences. At this time, it is premature to assess the likely course or outcome of this litigation.

The Corporation is involved in other litigation and regulatory investigations arising in the course of doing business. After consultation with legal Counsel, management estimates that these matters will be resolved without material adverse effect on the Corporation’s future consolidated financial position or results of operations.

## **10. FAIR VALUE MEASUREMENTS**

The Corporation’s consolidated financial statements reflect certain assets and liabilities recorded at fair value. Assets and liabilities measured at fair value on a recurring basis in the Corporation’s consolidated balance sheets include cash, cash equivalents, marketable securities, investment funds, commingled funds, securities lending collateral, derivatives, and certain pension assets. Liabilities measured at fair value on a recurring basis for disclosure only include debt.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value should be based on assumptions that market participants would use, including a consideration of non-performance risk.

To determine fair value, the Corporation uses various valuation methodologies based on market inputs. For many instruments, pricing inputs are readily observable in the market; the valuation methodology is widely accepted by market participants and involves little to no judgment. For other instruments, pricing inputs are less observable in the marketplace. These inputs can be subjective in nature and involve uncertainties and matters of considerable judgment. The use of different assumptions, judgments and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Corporation assesses the inputs used to measure fair value using a three level hierarchy based on the extent to which inputs used in measuring fair value are observable in the market. The fair value hierarchy is as follows:

Level 1 – Quoted (unadjusted) prices for identical instruments in active markets.

Level 2 – Other observable inputs, either directly or indirectly, including:

- Quoted prices for similar instruments in active markets;
- Quoted prices for identical or similar instruments in non-active markets (few transactions, limited information, non-current prices, high variability over time, etc.);
- Inputs other than quoted prices that are observable for the instrument (interest rates, yield curves, volatilities, default rates, etc.); and
- Inputs that are derived principally from or corroborated by other observable market data.

Level 3 – Unobservable inputs that cannot be corroborated by observable market data.

### ***Valuation Methodologies***

Exchange-traded securities whose fair value is derived using quoted prices in active markets are classified as Level 1. In instances where quoted market prices are not readily available, fair value is estimated using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve as well as other relevant economic measures. The Corporation classifies these securities as Level 2 within the fair value hierarchy.

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Corporation's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

Following is a description of the valuation methodologies the Corporation used for instruments recorded at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

***Cash and Cash Equivalents*** – The carrying amounts reported in the consolidated balance sheets approximate their fair value. Certain cash and cash equivalents are included in investments and assets limited or restricted as to use in the consolidated balance sheets.

***Security Lending Collateral*** – The fair value amounts of security lending collateral are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

**Marketable Securities** – The fair value amounts of marketable securities, included in investments and assets limited or restricted as to use in the consolidated balance sheets, are based on quoted market prices, if available, or are estimated using quoted market prices for similar securities.

**Investment Funds** – The Corporation's portfolio includes funds developed by investment managers specifically for the Corporation's use. These funds are similar to mutual funds, but are not traded on a public exchange. Investment Funds are recorded at fair value as the underlying investments consist of securities that have a readily determinable market value.

**Commingled Funds** – The Corporation invests in various commingled funds that are included in investments and assets limited or restricted as to use in the consolidated balance sheets. These funds are developed for investment by institutional investors only and therefore do not require registration with the Securities and Exchange Commission. Commingled funds are recorded at fair value as the underlying investments consist of securities that have a readily determinable market value.

The Corporation classifies its marketable securities, investment funds and commingled funds as trading securities. Holding gains (losses) included in the excess of revenue over expenses for the years ending June 30, 2011 and 2010 were approximately \$155.2 million and \$177.5 million, respectively.

**Other Investments** – The Corporation accounts for certain other investments using the equity method. These investments are structured as limited liability corporations and partnerships and are designed to produce stable investment returns regardless of market activity. These investments utilize a diversified multi-strategy approach. Generally, redemptions may be made with written notice ranging from one month to one year. Underlying investments in these funds may include other funds, equities, fixed income securities, commodities, currencies and derivatives. Audited information is only available annually based on the limited liability corporations, partnerships or funds' year-end. Management's estimates of the fair values of these investments are based on information provided by the external investment administrators and fund managers or the general partners. Management obtains and considers the audited financial statements of these investments when evaluating the overall reasonableness of the recorded value. In addition to a review of external information provided, management's internal procedures include such things as review of returns against benchmarks and discussions with fund managers on performance, changes in personnel or process, along with evaluations of current market conditions for these investments. Investment managers meet with the Corporation's Investment Subcommittee of the Finance and Stewardship Committee of the Board of Directors on a periodic basis. Because of the inherent uncertainty of valuations, values may differ materially from the values that would have been used had a ready market existed. The balance of these investments at June 30, 2011 and 2010, was \$965.7 million and \$612.2 million, respectively.

Cash, cash equivalents, marketable securities, investment funds, commingled funds and other investments totaled \$4,831 million and \$4,375 million at June 30, 2011 and 2010, respectively.

**Derivatives** – The fair value of the Corporation's derivatives, which are mainly interest rate swaps, are estimated utilizing the terms of the swaps and publicly available market yield curves along with the Corporation's nonperformance risk as observed through the credit default swap market and bond market and based on prices for recent trades. These swap agreements are classified as Level 2 within the fair value hierarchy.

The following table presents information about the fair value of the Corporation's financial instruments measured at fair value on a recurring basis and recorded at June 30:

2011 (In Thousands)				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 1,097,899	\$ 40,695	\$ -	\$ 1,138,594
Security lending collateral	-	149,641	-	149,641
Marketable securities:				
Equity securities	589,498	1,913	500	591,911
Debt securities:				
Government and government agency obligations	-	335,433	116	335,549
Corporate bonds	-	285,643	2,467	288,110
Asset backed securities	-	77,517	715	78,232
Other	-	13,620	-	13,620
Mutual funds:				
Equity mutual funds	181,670	-	-	181,670
Fixed income mutual funds	46,438	-	-	46,438
Real estate funds - REIT	6,658	-	-	6,658
Other	1,540	-	-	1,540
Total marketable securities	825,804	714,126	3,798	1,543,728
Investment funds:				
Equity funds	-	301	8,600	8,901
Bond funds	-	876,018	-	876,018
Commingled funds	-	291,750	-	291,750
Derivatives		33,422	-	33,422
Total Assets	<u>\$ 1,923,703</u>	<u>\$ 2,105,953</u>	<u>\$ 12,398</u>	<u>\$ 4,042,054</u>
Liabilities:				
Interest rate swaps	\$ -	\$ 107,926	\$ -	\$ 107,926
Total Liabilities	<u>\$ -</u>	<u>\$ 107,926</u>	<u>\$ -</u>	<u>\$ 107,926</u>

**2010**  
**(In Thousands)**

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Assets:				
Cash and cash equivalents	\$ 1,047,657	\$ 51,417	\$ -	\$ 1,099,074
Security lending collateral		156,162		156,162
Marketable securities:				
Equity securities	710,565	4,137	-	714,702
Debt securities:				
Government and government agency obligations	4,563	321,418	-	325,981
Corporate bonds	2,439	240,831	-	243,270
Asset backed securities	834	182,814	-	183,648
Other	-	7,503	-	7,503
Mutual funds:				
Equity mutual fund	130,962	34	-	130,996
Fixed income mutual fund	358,344	1,718	-	360,062
Real estate funds - REIT	7,200	-	-	7,200
Other	3,954	106	-	4,060
Total marketable securities	1,218,861	758,561	-	1,977,422
Investment funds:				
Bond funds	62	474,803	-	474,865
Commingled funds	-	204,974	-	204,974
Derivatives		23,154		23,154
Investment collars	-	5,359	-	5,359
Total Assets	<u>\$ 2,266,580</u>	<u>\$ 1,674,430</u>	<u>\$ -</u>	<u>\$ 3,941,010</u>
Liabilities:				
Interest rate swaps	\$ -	\$ 127,350	\$ -	\$ 127,350
Investment collars	-	8,736	-	8,736
Total Liabilities	<u>\$ -</u>	<u>\$ 136,086</u>	<u>\$ -</u>	<u>\$ 136,086</u>

There were no significant transfers to or from Levels 1 and 2 during the years ended June 30, 2011 or 2010.

The following table summarizes the changes in Level 3 assets for the years ended June 30:

<b>2010 and 2011</b> <b>(In Thousands)</b>						
	Equity securities	Government and government agency obligations	Corporate bonds	Asset backed securities	Investment funds	Total
Balance at June 30, 2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Realized gains	-	-	2	1		3
Unrealized gains (losses)	(35)	24	58	21	367	435
Purchases	535	92	2,436	885	8,233	12,181
Settlements	-	-	(29)	(192)	-	(221)
Balance at June 30, 2011	\$ 500	\$ 116	\$ 2,467	\$ 715	\$ 8,600	\$ 12,398

The composition of investment returns included in the consolidated statement of operations and changes in net assets for the years ending June 30 is as follows:

	<b>2011</b>	<b>2010</b>
	<b>(In Thousands)</b>	
Dividend, interest income and other	\$ 79,703	\$ 93,863
Realized gains (losses), net	138,901	23,783
Realized equity earnings (losses), other investments	(1,432)	31,698
Change in net unrealized gains (losses) on investments	279,942	195,979
Total investment return	\$ 497,114	\$ 345,323
Included in:		
Operating income	\$ 6,454	\$ 12,996
Nonoperating items	483,550	328,038
Changes in restricted net assets	7,110	4,289
Total investment return	\$ 497,114	\$ 345,323

In addition to investments, assets restricted as to use include receivables for unconditional promises to give cash and other assets net of allowances for uncollectible promises to give.

Unconditional promises to give consist of the following at June 30:

	2011	2010
	(In Thousands)	
Amounts expected to be collected in:		
Less than one year	\$ 9,049	\$ 8,921
One to five years	11,688	17,039
More than five years	3,841	4,229
	24,578	30,189
Discount to present value of future cash flows	1,885	2,173
Allowance for uncollectible amounts	2,566	3,081
Total unconditional promises to give, net	\$ 20,127	\$ 24,935

***Patient Accounts Receivable, Estimated Receivables from Third-Party Payors and Current Liabilities*** – The carrying amounts reported in the consolidated balance sheets approximate their fair value.

***Long-Term Debt*** – The carrying amounts of the Corporation's variable-rate debt approximate their fair values. The fair value of the Corporation's fixed-rate long-term debt is estimated using discounted cash flow analyses, based on current incremental borrowing rates for similar types of borrowing arrangements. The fair value of the fixed-rate long-term revenue and refunding bonds was \$1,576 million and \$1,474 million for 2011 and 2010, respectively. The related carrying value of the fixed-rate long-term revenue and refunding bonds was \$1,509 million and \$1,402 million for 2011 and 2010, respectively. The fair values of the remaining fixed-rate capital leases, notes payable to banks, and other debt are not materially different from their carrying values.

## 11. DERIVATIVE FINANCIAL INSTRUMENTS

***Derivative Financial Instruments*** – In the normal course of business, the Corporation is exposed to market risks, including the effect of changes in interest rates and equity market volatility. To manage these risks the Corporation enters into various derivative contracts, primarily interest rate swaps and investment collars. Interest rates swaps are used to manage the effect of interest rate fluctuations. Investment collars are used to manage the effects of equity market volatility.

Management reviews the Corporation's hedging program, derivative position, and overall risk management on a regular basis. The Corporation only enters into transactions it believes will be highly effective at offsetting the underlying risk.

***Interest Rate Swaps*** – The Corporation utilizes interest rate swaps to manage interest rate risk related to the Corporation's variable interest rate debt, variable rate leases and a fixed income investment portfolio. Cash payments on interest rate swaps totaled \$15.7 million and \$16.2 million in 2011 and 2010, respectively and are included in non-operating income.

Certain of the Corporation's interest rate swaps contain provisions that give certain counterparties the right to terminate the interest rate swap if a rating is downgraded below specified thresholds. If a ratings downgrade threshold is breached, the counterparties to the derivative instruments could demand immediate termination of the swaps. Such termination could result in a payment from the Corporation or a payment to the Corporation depending on the market value of the interest rate swap.

Certain of the Corporation's interest rate swaps are secured by \$30.6 million and \$32.5 million of collateral included in prepaid expenses and other current assets in the Corporation's consolidated balance sheets at June 30, 2011 and 2010, respectively.

**Investment Collars** – The Corporation engaged in a downside risk mitigation strategy employing an equity collar structure utilizing a combination of equity call and put options. This hedging strategy was based on investment portfolio exposure to long only equities and contained no leverage. This investment collar expired in July 2010.

**Effect of Derivative Instruments on Excess of Revenue over Expenses or Unrestricted Net Assets** - The following table represents the effect derivative instruments had on the Corporation's financial performance for the years ended June 30:

Derivatives not designated as hedging instruments:	Location of Net Gain (Loss) Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets	Amount of Net Gain (Loss) Recognized in Excess of Revenue over Expenses or Unrestricted Net Assets	
		2011	2010
		(In Thousands)	
<b>Excess of Revenue over Expenses:</b>			
Interest rate swaps	Change in market value and cash payment on interest rate swaps	\$ 13,554	\$ (40,385)
Interest rate swaps	Investment income	206	922
Investment collars	Investment loss	(4,969)	(3,338)
	Total	<u>\$ 8,791</u>	<u>\$ (42,801)</u>

**Balance Sheet Effect of Derivative Instruments** - The following table summarizes the estimated fair value of the Corporation's derivative financial instruments at June 30:

Derivatives not designated as hedging instruments:	Consolidated Balance Sheet Location	2011  (In Thousands)	2010
Asset Derivatives:			
Investment collars	Prepaid expenses and other current assets	\$ -	\$ 5,359
Interest rate swaps	Investments	6,356	6,164
Interest rate swaps	Other assets	27,066	16,990
Total asset derivatives		\$ 33,422	\$ 28,513
Liability Derivatives:			
Investment collars	Accrued liabilities	\$ -	\$ 8,736
Interest rate swaps	Other long term liabilities	107,926	124,693
Total liability derivatives		\$ 107,926	\$ 133,429

The counterparties to the interest rate swaps expose the Corporation to credit loss in the event of nonperformance. At June 30, 2011 and 2010 an adjustment for non-performance risk reduced derivative assets by \$2.6 million and \$0.9 million and derivatives liabilities by \$3.0 million and \$9.1 million, respectively.

## 12. ENDOWMENTS

The Corporation's endowments consist of funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board to function as endowments. Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Corporation considers various factors in making a determination to appropriate or accumulate donor-restricted endowment funds.

The Corporation employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of endowment funds for a prudent level of risk. The Corporation targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints. The Corporation can appropriate each year all available earnings in accordance with donor restrictions. The endowment corpus is to be maintained in perpetuity. Certain donor-restricted endowments require a portion of annual earnings to be maintained in perpetuity along with the corpus. Only amounts exceeding the amounts required to be maintained in perpetuity are expended.

Endowment net asset composition by type of fund at June 30 is as follows:

<b>2011</b>				
<b>(In Thousands)</b>				
	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 446	\$ 34,462	\$ 34,908
Board-designated endowment funds	34,988	-	-	34,988
Total endowment funds	<u>\$ 34,988</u>	<u>\$ 446</u>	<u>\$ 34,462</u>	<u>\$ 69,896</u>

  

<b>2010</b>				
<b>(In Thousands)</b>				
	<b>Unrestricted Net Assets</b>	<b>Temporarily Restricted Net Assets</b>	<b>Permanently Restricted Net Assets</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 464	\$ 31,736	\$ 32,200
Board-designated endowment funds	19,737	-	-	19,737
Total endowment funds	<u>\$ 19,737</u>	<u>\$ 464</u>	<u>\$ 31,736</u>	<u>\$ 51,937</u>

Changes in endowment net assets for the years ended June 30 include:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
	(In Thousands)			
Endowment net assets, July 1, 2009	\$ 17,157	\$ 430	\$ 29,197	\$ 46,784
Investment return:				
Investment gains	779	6	162	947
Change in net realized and unrealized gains and losses	1,519	15	1,288	2,822
Total investment return	2,298	21	1,450	3,769
Contributions	215	16	360	591
Appropriation of endowment assets for expenditures	(383)	(3)	-	(386)
Other	450	-	729	1,179
Endowment net assets, June 30, 2010	19,737	464	31,736	51,937
Investment return:				
Investment gains	1,658	8	713	2,379
Change in net realized and unrealized gains and losses	3,964	373	1,820	6,157
Total investment return	5,622	381	2,533	8,536
Contributions	36	-	403	439
Appropriation of endowment assets for expenditures	(967)	(5)	-	(972)
Transfer to create a board designated endowment	10,560	-	-	10,560
Other	-	(394)	(210)	(604)
Endowment net assets, June 30, 2011	\$ 34,988	\$ 446	\$ 34,462	\$ 69,896

The table below describes endowment amounts classified as permanently restricted net assets and temporarily restricted net assets as of June 30:

	2011 (In Thousands)	2010
Permanently restricted net assets:		
Hospital operations support	\$ 16,736	\$ 12,075
Medical program support	5,127	3,951
Scholarship funds	2,351	4,350
Research funds	3,433	2,604
Community service funds	5,764	5,462
Other funds	1,051	3,294
Total endowment funds classified as permanently restricted net assets	\$ 34,462	\$ 31,736
Temporarily restricted net assets:		
Term endowment funds	\$ 133	\$ 176
Other	313	288
Total endowment funds classified as temporarily restricted net assets	\$ 446	\$ 464

**Funds with Deficiencies** – Periodically the fair value of assets associated with the individual donor-restricted endowment funds may fall below the level that the donor requires the Corporation to retain as a fund of perpetual duration. Deficiencies of this nature are reported in unrestricted net assets. These deficiencies result from unfavorable market fluctuations and/or continued appropriation for certain programs that was deemed prudent by the Corporation.

### 13. SUBSEQUENT EVENTS

Management has evaluated subsequent events through September 23, 2011, the date the consolidated financial statements were issued. The following subsequent events were noted:

**Acquisition of Loyola University Health System (“LUHS”)** – On July 1, 2011, the Corporation replaced Loyola University of Chicago (“University”) as the sole member of LUHS, an Illinois not-for-profit corporation. LUHS is the sole member of Loyola University Medical Center and Gottlieb Memorial Hospital, both Illinois not-for-profit corporations. LUHS is also the sole shareholder of Loyola University of Chicago Insurance Company, a Cayman Islands Corporation. The Corporation will coordinate with the University to support health science education and research. The entities seek to work collaboratively both within and outside the Chicago market to become one of the nation’s leading providers of Catholic health care, research and medical education.

The Corporation acquired LUHS for \$88.3 million in cash and accrued an additional \$75 million to be paid over future years. The Corporation recorded indefinite-lived intangible assets, primarily for a trade name, of \$36.1 million in the consolidated balance sheet at the acquisition date. Based on the purchase price allocation, the fair value of identifiable assets acquired and liabilities assumed exceeded the fair value of consideration paid and accrued. The Definitive Agreement stipulates a post closing reconciliation of the purchase price shall take place within 120 days of the closing date. Management anticipates this reconciliation will increase the purchase price and decrease the gain recorded in nonoperating items. Prior to the post closing adjustment to the purchase price, the Corporation will recognize a gain of approximately \$149 million in nonoperating items in the consolidated statement of operations and changes in net assets for the year ending June 30, 2012. The Corporation is still assessing the economic characteristics of certain assets acquired and liabilities assumed. The Corporation expects to substantially complete this assessment during the six months ended December 31, 2011 and may adjust the amounts recorded as of July 1, 2011 to reflect revised evaluations. Transaction costs accrued as of June 30, 2011 totaled \$6.0 million and were incurred primarily for legal and consulting services which are included in purchased services on the consolidated statement of operations and changes in net assets. Summarized consolidated balance sheet information for LUHS at July 1, 2011 is shown below.

(In Thousands)			
Cash and investments	\$ 117,803	Current portion of long-term debt	\$ 163,392
Patient accounts receivable, net	151,485	Accounts payable and accrued expenses	108,264
Other current assets	60,803	Other current liabilities	81,120
Assets whose use is restricted	239,115	Long-term debt	174,477
Property and equipment	522,076	Self-insurance reserves	193,251
Intangibles	36,110	Pension and post retirement plan obligations	56,528
Other assets	45,737	Other liabilities	56,300
Total assets acquired	<u>\$ 1,173,129</u>	Total liabilities acquired	<u>\$ 833,332</u>
		Temporarily restricted net assets	\$ 20,362
		Permanently restricted net assets	6,671
		Total net assets	<u>\$ 27,033</u>

As of August 8, 2011, all of LUHS’ debt was retired with the proceeds from the Corporation’s issuance of \$234 million of taxable commercial paper and cash on hand.

As part of the LUHS acquisition, certain executed agreements provide for ongoing financial support from the Corporation including:

- A Definitive Agreement which the Corporation has agreed that over the seven year period from July 1, 2011 to 2018, at least \$300 million will be expended on capital projects and, if certain operating thresholds are met, the amount may be increased to \$400 million
- An Academic Affiliation Agreement which has an initial term of ten years and provides for an annual academic support payment from the Corporation to the University of \$22.5 million in the first year, adjusted annually for inflation.
- A Shared Services Agreement between the University and LUHS who have agreed on a cost sharing agreement related to common employees and services.

The supplemental pro forma revenue, earnings and changes in net assets for LUHS and the Corporation combined for the years ended June 30, 2011 and 2010, are as follows:

	2011	2010
Total operating revenue	\$ 8,412,095	\$ 7,845,373
Excess of revenue over expenses	707,053	452,261
Change in unrestricted net assets	990,170	291,617
Change in temporarily restricted net assets	3,273	(10,710)
Change in permanently restricted net assets	2,834	2,565

***Sale of BCHS*** – Effective July 1, 2011, the Corporation transferred its shares of BCHS to Bronson Healthcare Group, Inc. for \$76.4 million. As a result of the transfer, an estimated loss on disposal of approximately \$28.4 million was recognized which includes a pension curtailment gain of \$5.8 million and settlement loss of \$24.7 million. As of June 30, 2011, \$1.7 million of disposition costs consisted of legal and other divestiture costs.

***Renewal of Credit Agreements*** – In July 2011, the Corporation renewed the 2010 Credit Agreements with Bank of America, N.A., which acts as an administrative agent for a group of lenders thereunder. The 2010 Credit Agreements establish a revolving credit facility for the Corporation, under which that group of lenders agrees to lend to the Corporation amounts that may fluctuate from time to time but, as of September 23, 2011, the amount available was \$916 million. Amounts drawn under the 2010 Credit Agreements can only be used to support the Corporation's obligation to pay the purchase price of bonds that are subject to tender and that have not been successfully remarketed, and the maturing principal of and interest on commercial paper notes. Of the \$916 million, \$225 million expires in July 2012, \$195 million expires in July 2013, \$240 million expires in July 2014 and \$256 million expires in July 2015.

\* \* \* \*

## INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL SCHEDULES

To the Board of Directors of  
Trinity Health  
Novi, Michigan

We have audited the consolidated financial statements of the Corporation for the years ended June 30, 2011 and 2010, and our report thereon appears on page 1. Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules on pages 51 – 58 are presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations, and changes in net assets of the individual entities and are not a required part of the basic consolidated financial statements. These supplemental schedules are the responsibility of the Corporation's management. Such supplemental schedules have been subjected to the auditing procedures applied in our audits of the basic consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.

*Deloitte & Touche LLP*

September 23, 2011

**TRINITY HEALTH**
**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS**
**June 30, 2011**
**(In Thousands)**

	<b>Hospital Entities</b>	<b>Non- Hospital Entities</b>	<b>Eliminations</b>	<b>Total</b>
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash, cash equivalents and investments	\$ 1,923,943	\$ 294,025	\$ -	\$ 2,217,968
Assets limited or restricted as to use, current portion	8,035	198	-	8,233
Patient and other receivables, net	895,277	161,709	(123,952)	933,034
Other current assets	331,664	219,545	(9,990)	541,219
Total current assets	<u>3,158,919</u>	<u>675,477</u>	<u>(133,942)</u>	<u>3,700,454</u>
<b>ASSETS LIMITED OR RESTRICTED AS TO USE, NON-CURRENT PORTION:</b>				
Held by trustees	44,601	169,262	-	213,863
By Board	1,255,201	1,054,366	-	2,309,567
By donors	98,941	1,262	-	100,203
Total assets limited or restricted as to use, noncurrent portion	<u>1,398,743</u>	<u>1,224,890</u>	<u>-</u>	<u>2,623,633</u>
PROPERTY AND EQUIPMENT, NET	2,958,269	415,834	-	3,374,103
OTHER ASSETS	<u>565,235</u>	<u>2,365,125</u>	<u>(2,598,893)</u>	<u>331,467</u>
TOTAL ASSETS	<u>\$ 8,081,166</u>	<u>\$ 4,681,326</u>	<u>\$ (2,732,835)</u>	<u>\$ 10,029,657</u>
<b>LIABILITIES AND NET ASSETS</b>				
CURRENT LIABILITIES	\$ 877,764	\$ 1,612,871	\$ (123,806)	\$ 2,366,829
LONG-TERM DEBT, NONCURRENT PORTION	2,313,892	1,499,372	(2,282,362)	1,530,902
OTHER LIABILITIES	119,597	1,120,702	(322,685)	917,614
<b>NET ASSETS:</b>				
Unrestricted	4,661,265	447,115	(3,574)	5,104,806
Restricted	<u>108,648</u>	<u>1,266</u>	<u>(408)</u>	<u>109,506</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 8,081,166</u>	<u>\$ 4,681,326</u>	<u>\$ (2,732,835)</u>	<u>\$ 10,029,657</u>

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS

June 30, 2011

(In Thousands)

ASSETS	Saint Agnes Medical Center, Fresno	Saint Alphonsus Health System, Oregon-Idaho	Mercy Medical Center, Clinton	Mercy Medical Center, Dubuque	North Iowa Mercy Medical Center, Mason City	Mercy Medical Center, Sioux City	Saint Joseph Regional Medical Center, South Bend	Battle Creek Health System	Saint Mary's Health Care, Grand Rapids	Subtotal Hospital Entities
CURRENT ASSETS:										
Cash, cash equivalents and investments	\$ 82,539	\$ 225,776	\$ 36,866	\$ 31,108	\$ 60,131	\$ 45,965	\$ 62,653	\$ 63,369	\$ 72,474	\$ 680,881
Assets limited or restricted as to use, current portion	1,073	230	7	27	96	315	491	-	131	2,370
Patient and other receivables, net	67,090	95,898	13,253	22,367	44,904	28,402	47,593	-	55,365	374,872
Other current assets	8,874	12,303	1,434	5,959	7,063	4,217	9,092	195,654	10,585	255,181
Total current assets	159,576	334,207	51,560	59,461	112,194	78,899	119,829	259,023	138,555	1,313,304
ASSETS LIMITED OR RESTRICTED AS TO USE,										
NON-CURRENT PORTION:										
Held by trustees	-	4,653	122	-	7,148	6,567	4,531	-	1,233	24,254
By Board	220,773	108,241	41,903	26,627	154,473	16,590	-	-	169,045	737,652
By donors	14,256	6,222	757	4,906	1,406	2,971	12,582	-	7,795	50,895
Total assets limited or restricted as to use, noncurrent portion	235,029	119,116	42,782	31,533	163,027	26,128	17,113	-	178,073	812,801
PROPERTY AND EQUIPMENT, NET	218,760	340,324	28,767	44,336	83,909	45,703	400,509	-	224,718	1,387,026
OTHER ASSETS	25,679	47,812	6,446	10,215	21,146	35,604	23,684	-	23,205	193,791
TOTAL ASSETS	\$ 639,044	\$ 841,459	\$ 129,555	\$ 145,545	\$ 380,276	\$ 186,334	\$ 561,135	\$ 259,023	\$ 564,551	\$ 3,706,922
LIABILITIES AND NET ASSETS										
CURRENT LIABILITIES	\$ 46,389	\$ 99,074	\$ 13,519	\$ 16,668	\$ 37,540	\$ 24,749	\$ 44,858	\$ 31,892	\$ 50,550	\$ 365,239
LONG-TERM DEBT, NONCURRENT PORTION	107,010	225,516	18,946	24,625	94,757	80,044	342,866	62,100	120,078	1,075,942
OTHER LIABILITIES	2,303	24,586	1,662	976	9,929	13,150	13,359	-	1,592	67,557
NET ASSETS:										
Unrestricted	468,194	485,830	94,664	98,343	236,678	65,136	146,979	161,516	384,405	2,141,745
Restricted	15,148	6,453	764	4,933	1,372	3,255	13,073	3,515	7,926	56,439
TOTAL LIABILITIES AND NET ASSETS	\$ 639,044	\$ 841,459	\$ 129,555	\$ 145,545	\$ 380,276	\$ 186,334	\$ 561,135	\$ 259,023	\$ 564,551	\$ 3,706,922

**TRINITY HEALTH**

**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS**

**June 30, 2011**

**(In Thousands)**

<b>ASSETS</b>	<b>Balance Forward</b>	<b>Mercy Health Partners, Muskegon</b>	<b>Mercy Health Services, North</b>	<b>Saint Joseph Mercy Health System, Ann Arbor</b>	<b>St. Joseph Mercy Oakland</b>	<b>St. Joseph Mercy Port Huron</b>	<b>Mount Carmel Health System, Columbus</b>	<b>Holy Cross Hospital, Silver Spring</b>	<b>Eliminations</b>	<b>Total Hospital Entities</b>
<b>CURRENT ASSETS:</b>										
Cash, cash equivalents and investments	\$ 680,881	\$ 88,442	\$ 64,830	\$ 157,828	\$ 162,743	\$ 10,076	\$ 564,705	\$ 194,438	\$ -	\$ 1,923,943
Assets limited or restricted as to use, current portion	2,370	183	236	4,185	896	2	163	-	-	8,035
Patient and other receivables, net	374,872	57,285	10,349	179,000	52,501	10,436	155,584	56,743	(1,493)	895,277
Other current assets	255,181	12,714	3,049	19,371	10,055	2,427	21,531	7,288	48	331,664
Total current assets	<u>1,313,304</u>	<u>158,624</u>	<u>78,464</u>	<u>360,384</u>	<u>226,195</u>	<u>22,941</u>	<u>741,983</u>	<u>258,469</u>	<u>(1,445)</u>	<u>3,158,919</u>
<b>ASSETS LIMITED OR RESTRICTED AS TO USE,</b>										
<b>NON-CURRENT PORTION:</b>										
Held by trustees	24,254	4,560	1,285	2,555	1,146	600	10,153	48	-	44,601
By Board	737,652	12,821	12,310	155,878	-	11,931	324,609	-	-	1,255,201
By donors	50,895	4,959	1,384	27,534	4,039	1,099	6,183	2,848	-	98,941
Total assets limited or restricted as to use, noncurrent portion	<u>812,801</u>	<u>22,340</u>	<u>14,979</u>	<u>185,967</u>	<u>5,185</u>	<u>13,630</u>	<u>340,945</u>	<u>2,896</u>	<u>-</u>	<u>1,398,743</u>
<b>PROPERTY AND EQUIPMENT, NET</b>	<u>1,387,026</u>	<u>94,051</u>	<u>40,849</u>	<u>631,133</u>	<u>175,149</u>	<u>33,670</u>	<u>466,312</u>	<u>130,079</u>	<u>-</u>	<u>2,958,269</u>
<b>OTHER ASSETS</b>	<u>193,791</u>	<u>31,471</u>	<u>2,858</u>	<u>165,744</u>	<u>24,358</u>	<u>8,523</u>	<u>118,679</u>	<u>19,811</u>	<u>-</u>	<u>565,235</u>
<b>TOTAL ASSETS</b>	<u>\$ 3,706,922</u>	<u>\$ 306,486</u>	<u>\$ 137,150</u>	<u>\$ 1,343,228</u>	<u>\$ 430,887</u>	<u>\$ 78,764</u>	<u>\$ 1,667,919</u>	<u>\$ 411,255</u>	<u>\$ (1,445)</u>	<u>\$ 8,081,166</u>
<b>LIABILITIES AND NET ASSETS</b>										
<b>CURRENT LIABILITIES</b>	\$ 365,239	\$ 60,067	\$ 19,656	\$ 150,522	\$ 39,587	\$ 10,505	\$ 169,893	\$ 63,740	\$ (1,445)	\$ 877,764
<b>LONG-TERM DEBT, NONCURRENT PORTION</b>	1,075,942	134,789	47,480	426,449	100,391	31,689	399,597	97,555	-	2,313,892
<b>OTHER LIABILITIES</b>	67,557	9,261	1,502	18,336	6,354	749	15,048	790	-	119,597
<b>NET ASSETS:</b>										
Unrestricted	2,141,745	97,227	66,892	717,644	279,680	34,720	1,077,035	246,322	-	4,661,265
Restricted	56,439	5,142	1,620	30,277	4,875	1,101	6,346	2,848	-	108,648
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 3,706,922</u>	<u>\$ 306,486</u>	<u>\$ 137,150</u>	<u>\$ 1,343,228</u>	<u>\$ 430,887</u>	<u>\$ 78,764</u>	<u>\$ 1,667,919</u>	<u>\$ 411,255</u>	<u>\$ (1,445)</u>	<u>\$ 8,081,166</u>

**TRINITY HEALTH**

**SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEETS**

**June 30, 2011**

**(In Thousands)**

ASSETS	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health Consolidated Labs	Trinity Health International	Trinity Health Warde Lab LLC	Mercy Primary Care Center, Detroit	Venzke Insurance Company	Trinity Information Services	Home Office	Eliminations	Total Non- Hospital Entities
CURRENT ASSETS:											
Cash, cash equivalents and investments	\$ 64,597	\$ 23,280	\$ 3,240	\$ 569	\$ 19	\$ 2,164	\$ 10	\$ 67,503	\$ 132,643	\$ -	\$ 294,025
Assets limited or restricted as to use, current portion	-	-	-	-	-	-	-	-	198	-	198
Patient and other receivables, net	14,748	9,049	5,761	-	2	14	18,108	10,626	169,747	(66,346)	161,709
Other current assets	2,039	203	2,140	1	16	-	33,677	22,143	159,326	-	219,545
Total current assets	81,384	32,532	11,141	570	37	2,178	51,795	100,272	461,914	(66,346)	675,477
ASSETS LIMITED OR RESTRICTED AS TO USE,											
NON-CURRENT PORTION:											
Held by trustees	-	-	-	-	-	-	141,118	912	27,232	-	169,262
By Board	-	-	-	-	-	-	-	-	1,054,366	-	1,054,366
By donors	141	244	-	-	-	387	-	-	490	-	1,262
Total assets limited or restricted as to use, noncurrent portion	141	244	-	-	-	387	141,118	912	1,082,088	-	1,224,890
PROPERTY AND EQUIPMENT, NET	94,804	2,510	4,164	-	9,094	-	-	274,178	31,084	-	415,834
OTHER ASSETS	3,841	1,779	-	-	-	-	11,553	-	2,462,291	(114,339)	2,365,125
TOTAL ASSETS	\$ 180,170	\$ 37,065	\$ 15,305	\$ 570	\$ 9,131	\$ 2,565	\$ 204,466	\$ 375,362	\$ 4,037,377	\$ (180,685)	\$ 4,681,326
LIABILITIES AND NET ASSETS											
CURRENT LIABILITIES	\$ 19,355	\$ 9,567	\$ 6,593	\$ 332	\$ 188	\$ 1,013	\$ 69,048	\$ 48,195	\$ 1,507,386	\$ (48,806)	\$ 1,612,871
LONG-TERM DEBT, NONCURRENT PORTION	106,908	595	2,598	-	7,368	-	-	-	1,488,364	(106,461)	1,499,372
OTHER LIABILITIES	-	6	329	-	-	-	135,298	328,414	682,073	(25,418)	1,120,702
NET ASSETS:											
Unrestricted	53,766	26,652	5,785	238	1,575	1,165	120	(1,247)	359,063	(2)	447,115
Restricted	141	245	-	-	-	387	-	-	491	2	1,266
TOTAL LIABILITIES AND NET ASSETS	\$ 180,170	\$ 37,065	\$ 15,305	\$ 570	\$ 9,131	\$ 2,565	\$ 204,466	\$ 375,362	\$ 4,037,377	\$ (180,685)	\$ 4,681,326

# TRINITY HEALTH

## SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

June 30, 2011

(In Thousands)

	Hospital Entities	Non- Hospital Entities	Eliminations	Total
<b><u>STATEMENTS OF OPERATIONS</u></b>				
UNRESTRICTED REVENUE:				
Net patient service revenue	\$ 6,291,570	\$ 204,382	\$ (33)	\$ 6,495,919
Other	775,772	825,054	(745,396)	855,430
Total revenue	<u>7,067,342</u>	<u>1,029,436</u>	<u>(745,429)</u>	<u>7,351,349</u>
EXPENSES:				
Labor costs	3,233,958	481,606	(78,408)	3,637,156
Medical claims and purchased services	1,107,661	158,637	(384,383)	881,915
Depreciation, amortization and interest	474,447	173,743	(158,488)	489,702
Provision for bad debts	320,513	2,762	-	323,275
Other	1,700,240	214,388	(120,086)	1,794,542
Total expenses	<u>6,836,819</u>	<u>1,031,136</u>	<u>(741,365)</u>	<u>7,126,590</u>
OPERATING INCOME (LOSS)	230,523	(1,700)	(4,064)	224,759
NONOPERATING ITEMS:				
Investment gains	331,993	161,535	3,576	497,104
Loss from early extinguishment of debt	-	(10,185)	-	(10,185)
Other	(22,368)	(6,397)	-	(28,765)
Total	<u>309,625</u>	<u>144,953</u>	<u>3,576</u>	<u>458,154</u>
EXCESS OF REVENUE OVER EXPENSES	540,148	143,253	(488)	682,913
Less excess of revenue over expenses attributable to noncontrolling interest	<u>6,399</u>	<u>459</u>	<u>(278)</u>	<u>6,580</u>
EXCESS OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST	<u>533,749</u>	<u>142,794</u>	<u>(210)</u>	<u>676,333</u>
<b><u>CHANGES IN NET ASSETS</u></b>				
Increase in unrestricted net assets	391,807	506,861	255	898,923
Increase in restricted net assets	5,216	164	71	5,451
Increase in net assets	<u>397,023</u>	<u>507,025</u>	<u>326</u>	<u>904,374</u>
NET ASSETS, BEGINNING OF YEAR	<u>4,372,890</u>	<u>(58,644)</u>	<u>(4,308)</u>	<u>4,309,938</u>
NET ASSETS, END OF YEAR	<u>\$ 4,769,913</u>	<u>\$ 448,381</u>	<u>\$ (3,982)</u>	<u>\$ 5,214,312</u>

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

June 30, 2011

(In Thousands)

	Saint Agnes Medical Center, Fresno	Saint Alphonse Health System, Oregon-Idaho	Mercy Medical Center, Clinton	Mercy Medical Center, Dubuque	North Iowa Mercy Medical Center, Mason City	Mercy Medical Center, Sioux City	Saint Joseph Regional Medical Center, South Bend	Battle Creek Health System	Saint Mary's Health Care, Grand Rapids	Subtotal Hospital Entities
UNRESTRICTED REVENUE:										
Net patient service revenue	\$ 466,011	\$ 662,269	\$ 96,717	\$ 118,518	\$ 296,918	\$ 207,713	\$ 323,767	\$ -	\$ 414,834	\$ 2,586,747
Other	6,759	27,277	2,106	33,149	47,007	16,396	11,196	-	92,039	235,929
Total revenue	472,770	689,546	98,823	151,667	343,925	224,109	334,963	-	506,873	2,822,676
EXPENSES:										
Labor costs	232,274	319,222	45,566	65,176	172,589	110,930	147,985	-	212,874	1,306,616
Medical claims and purchased services	56,762	104,998	13,761	20,629	44,628	31,121	54,847	-	73,984	400,730
Depreciation, amortization and interest	31,389	41,877	7,765	9,128	19,570	14,623	39,948	-	33,101	197,401
Provision for bad debts	19,485	43,251	2,061	3,073	8,780	16,434	18,671	-	16,777	128,532
Other	141,811	168,051	17,061	48,741	86,028	50,472	72,235	-	138,579	722,978
Total expenses	481,721	677,399	86,214	146,747	331,595	223,580	333,686	-	475,315	2,756,257
OPERATING INCOME (LOSS)	(8,951)	12,147	12,609	4,920	12,330	529	1,277	-	31,558	66,419
NONOPERATING ITEMS:										
Investment gains	35,842	36,414	8,010	6,899	23,283	6,689	6,834	-	25,253	149,224
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-	-
Other	(133)	(236)	(20)	(125)	(9)	-	107	-	(22)	(438)
Total	35,709	36,178	7,990	6,774	23,274	6,689	6,941	-	25,231	148,786
EXCESS OF REVENUE OVER EXPENSES	26,758	48,325	20,599	11,694	35,604	7,218	8,218	-	56,789	215,205
Less excess of revenue over expenses attributable to noncontrolling interest	-	180	51	-	4,323	-	-	-	449	5,003
EXCESS OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST	26,758	48,145	20,548	11,694	31,281	7,218	8,218	-	56,340	210,202
CHANGES IN NET ASSETS										
Increase (decrease) in unrestricted net assets	18,454	3,378	18,552	7,336	24,642	2,671	309	14,592	49,017	138,951
Increase (decrease) in restricted net assets	2,446	846	141	63	(533)	(204)	(1,264)	192	605	2,292
Increase (decrease) in net assets	20,900	4,224	18,693	7,399	24,109	2,467	(955)	14,784	49,622	141,243
NET ASSETS, BEGINNING OF YEAR	462,442	488,059	76,735	95,877	213,941	65,924	161,007	150,247	342,709	2,056,941
NET ASSETS, END OF YEAR	\$ 483,342	\$ 492,283	\$ 95,428	\$ 103,276	\$ 238,050	\$ 68,391	\$ 160,052	\$ 165,031	\$ 392,331	\$ 2,198,184

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

June 30, 2011

(In Thousands)

STATEMENTS OF OPERATIONS

UNRESTRICTED REVENUE:

Net patient service revenue	\$ 2,586,747	\$ 472,817	\$ 134,783	\$ 1,181,170	\$ 377,673	\$ 75,927	\$ 1,060,987	\$ 401,837	\$ (371)	\$ 6,291,570
Other	235,929	39,909	4,588	67,791	19,349	6,360	389,385	14,485	(2,024)	775,772
Total revenue	<u>2,822,676</u>	<u>512,726</u>	<u>139,371</u>	<u>1,248,961</u>	<u>397,022</u>	<u>82,287</u>	<u>1,450,372</u>	<u>416,322</u>	<u>(2,395)</u>	<u>7,067,342</u>

EXPENSES:

Labor costs	1,306,616	259,659	71,190	624,562	185,427	39,177	544,927	203,433	(1,033)	3,233,958
Medical claims and purchased services	400,730	64,713	20,987	159,418	49,660	10,428	349,650	53,384	(1,309)	1,107,661
Depreciation, amortization and interest	197,401	27,462	7,521	95,470	30,275	6,059	83,672	26,589	(2)	474,447
Provision for bad debts	128,532	21,237	6,331	48,877	12,039	3,615	79,841	20,041	-	320,513
Other	722,978	130,602	32,170	284,105	104,628	24,002	315,266	86,540	(51)	1,700,240
Total expenses	<u>2,756,257</u>	<u>503,673</u>	<u>138,199</u>	<u>1,212,432</u>	<u>382,029</u>	<u>83,281</u>	<u>1,373,356</u>	<u>389,987</u>	<u>(2,395)</u>	<u>6,836,819</u>

OPERATING INCOME (LOSS)

	66,419	9,053	1,172	36,529	14,993	(994)	77,016	26,335	-	230,523
--	--------	-------	-------	--------	--------	-------	--------	--------	---	---------

NONOPERATING ITEMS:

Investment gains	149,224	10,696	8,639	41,316	19,132	2,487	83,142	17,357	-	331,993
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	-	-
Other	(438)	(245)	-	(21,472)	6	(22)	(197)	-	-	(22,368)
Total	<u>148,786</u>	<u>10,451</u>	<u>8,639</u>	<u>19,844</u>	<u>19,138</u>	<u>2,465</u>	<u>82,945</u>	<u>17,357</u>	<u>-</u>	<u>309,625</u>

EXCESS OF REVENUE OVER EXPENSES

	215,205	19,504	9,811	56,373	34,131	1,471	159,961	43,692	-	540,148
--	---------	--------	-------	--------	--------	-------	---------	--------	---	---------

Less excess of revenue over expenses attributable to noncontrolling interest

	5,003	50	-	804	-	71	471	-	-	6,399
--	-------	----	---	-----	---	----	-----	---	---	-------

EXCESS OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST

	210,202	19,454	9,811	55,569	34,131	1,400	159,490	43,692	-	533,749
--	---------	--------	-------	--------	--------	-------	---------	--------	---	---------

CHANGES IN NET ASSETS

Increase (decrease) in unrestricted net assets	138,951	13,860	7,530	38,324	21,492	(233)	138,587	33,296	-	391,807
Increase (decrease) in restricted net assets	2,292	469	359	1,132	(706)	196	1,064	410	-	5,216
Increase (decrease) in net assets	<u>141,243</u>	<u>14,329</u>	<u>7,889</u>	<u>39,456</u>	<u>20,786</u>	<u>(37)</u>	<u>139,651</u>	<u>33,706</u>	<u>-</u>	<u>397,023</u>

NET ASSETS, BEGINNING OF YEAR

	2,056,941	88,040	60,623	708,465	263,769	35,858	943,730	215,464	-	4,372,890
--	-----------	--------	--------	---------	---------	--------	---------	---------	---	-----------

NET ASSETS, END OF YEAR

	\$ 2,198,184	\$ 102,369	\$ 68,512	\$ 747,921	\$ 284,555	\$ 35,821	\$ 1,083,381	\$ 249,170	\$ -	\$ 4,769,913
--	--------------	------------	-----------	------------	------------	-----------	--------------	------------	------	--------------

TRINITY HEALTH

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS

June 30, 2011

(In Thousands)

	Trinity Continuing Care Services	Trinity Home Health Services	Trinity Health Consolidated Labs	Trinity Health International	Trinity Health Ward Lab LLC	Mercy Primary Care Center, Detroit	Venzke Insurance Company	Trinity Information Services	Home Office	Eliminations	Total Non- Hospital Entities
<b>STATEMENTS OF OPERATIONS</b>											
UNRESTRICTED REVENUE:											
Net patient service revenue	\$ 126,699	\$ 77,680	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ 204,382
Other	33,335	1,324	43,014	988	301	339	31,329	337,158	424,931	(47,665)	825,054
Total revenue	160,034	79,004	43,014	988	301	339	31,329	337,158	424,934	(47,665)	1,029,436
EXPENSES:											
Labor costs	85,098	58,565	10,106	583	-	1,083	-	136,186	194,456	(4,471)	481,606
Medical claims and purchased services	20,353	6,467	12,859	70	49	581	412	84,430	41,400	(7,984)	158,637
Depreciation, amortization and interest	14,306	710	1,313	-	237	1	-	74,358	88,164	(5,346)	173,743
Provision for bad debts	2,229	822	18	(19)	-	-	-	-	(288)	-	2,762
Other	31,277	9,852	18,721	299	151	566	30,917	39,711	112,553	(29,659)	214,388
Total expenses	153,263	76,416	43,017	933	437	2,231	31,329	334,685	436,285	(47,460)	1,031,136
OPERATING INCOME (LOSS)	6,771	2,588	(3)	55	(136)	(1,892)	-	2,473	(11,351)	(205)	(1,700)
NONOPERATING ITEMS:											
Investment gains	4,048	2,731	327	-	-	133	-	8,931	145,160	205	161,535
Loss from early extinguishment of debt	-	-	-	-	-	-	-	-	(10,185)	-	(10,185)
Other	-	-	80	-	-	-	-	-	(6,477)	-	(6,397)
Total	4,048	2,731	407	-	-	133	-	8,931	128,498	205	144,953
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	10,819	5,319	404	55	(136)	(1,759)	-	11,404	117,147	-	143,253
Less excess of revenue over expenses attributable to noncontrolling interest	-	459	-	-	-	-	-	-	-	-	459
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES NET OF NONCONTROLLING INTEREST	10,819	4,860	404	55	(136)	(1,759)	-	11,404	117,147	-	142,794
<b>CHANGES IN NET ASSETS</b>											
Increase in unrestricted net assets	8,534	4,060	1,239	1,059	1,575	825	-	8,298	481,271	-	506,861
Increase in restricted net assets	27	45	-	-	-	45	-	-	47	-	164
Increase in net assets	8,561	4,105	1,239	1,059	1,575	870	-	8,298	481,318	-	507,025
NET ASSETS, BEGINNING OF YEAR	43,346	22,792	4,546	(821)	-	682	120	(9,545)	(121,764)	-	(58,644)
NET ASSETS, END OF YEAR	\$ 53,907	\$ 26,897	\$ 5,785	\$ 238	\$ 1,575	\$ 1,552	\$ 120	\$ (1,247)	\$ 359,554	\$ -	\$ 448,381